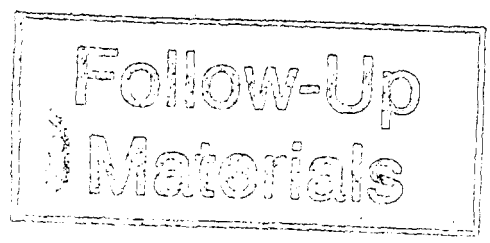


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MEMORANDUM

TO: DOCUMENT CONTROL

FROM: Paul M. Dudek, Chief  
Office of International Corporate Finance  
Division of Corporation Finance

RE: INTERNATIONAL BANK RECORD DATA

FORM TYPE: ZADD

COMPANY NAME: Inter American Development Bank

COMPANY ADDRESS: \_\_\_\_\_  
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PROCESSED  
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COMPANY STATUS: ACTIVE A BRANCH: \_\_\_\_\_

FILE NO.: 83-1 FISCAL YEAR: \_\_\_\_\_

IAOB

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File No. 83-1  
Regulation IA  
Rule 3

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OFFICE OF INTER-AMERICAN  
CORPORATE RELATIONS

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
450 Fifth Street, NW  
Washington, D.C. 20549

SEC. 8.3.C.  
MAY 31 2005  
1086

REPORT OF  
INTER-AMERICAN DEVELOPMENT BANK

In respect of  
proposed issues of  
Securities of the Bank

Filed pursuant to Rule 3 of Regulation IA

Dated: March 24, 2005

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The following information is filed pursuant to Rule 3 of Regulation IA in respect of proposed issues of Securities of the Inter-American Development Bank (hereinafter referred to as the "Bank"). As authorized by Rule 4 of Regulation IA, certain information is provided in the form of an Information Statement (hereinafter referred to as "Information Statement"), which is attached hereto as an exhibit. Certain information specified in Schedule A to Regulation IA is not available at the date of this report, but when available will be filed as promptly as possible.

- |         |   |
|---------|---|
| Item 1. | <u>Description of Securities</u><br><br>See cover page. When the terms of an offering of any Securities are established, such Securities will be described in a Prospectus. |
| Item 2. | <u>Distribution of Securities</u><br><br>Not yet known.   |
| Item 3. | <u>Distribution Spread</u><br><br>Not yet known.  |
| Item 4. | <u>Discounts and Commissions to Sub-Underwriters and Dealers</u><br><br>Not yet known.  |
| Item 5. | <u>Other Expenses of Distribution</u><br><br>Not yet known.   |
| Item 6. | <u>Application of Proceeds</u><br><br>See page 5 of the enclosed Information Statement.   |
| Item 7. | <u>Exhibits</u><br><br>Information Statement, dated March 24, 2005.   |

## Information Statement

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# Inter-American Development Bank



The Inter-American Development Bank (Bank or IADB) intends from time to time to issue its debt securities with maturities and on terms based on market conditions at the time of sale. The debt securities may be sold to dealers or underwriters, who may resell them in public offerings or otherwise, or they may be sold by the IADB directly or through agents. The details of the debt securities being offered at a particular time will be explained in a prospectus or supplemental information statement.

Unless otherwise stated, all information in this annual Information Statement is provided as of December 31, 2004, and all amounts are expressed in current United States dollars, translated from their original currencies as described in "*Translation of currencies*" in the notes to the financial statements.

### AVAILABILITY OF INFORMATION

The IADB will provide, upon request, copies of this Information Statement without charge. Written or telephone requests should be directed to the principal office of the Inter-American Development Bank at 1300 New York Avenue, N.W., Washington, D.C. 20577, Attention: Finance Department, telephone: (202) 623-2441. The Information Statement is also available on the Bank's website at [http://www.iadb.org/fin/PDFs/Info\\_statement.pdf](http://www.iadb.org/fin/PDFs/Info_statement.pdf). Other documents and information on this website are not intended to be incorporated by reference in this Information Statement.

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Recipients of this Information Statement should retain it for future reference, since it is intended that each prospectus and any supplemental information statement issued after the date hereof will refer to this Information Statement for a description of the IADB and its financial condition, until a subsequent Information Statement is issued.

March 24, 2005

## SUMMARY INFORMATION

As of December 31, 2004

The purpose of the IADB is to further the economic and social development of Latin America and the Caribbean by promoting environmentally sustainable growth, as well as poverty reduction and social equity. The IADB is an international institution established in 1959, pursuant to the Agreement Establishing the Inter-American Development Bank (the Agreement), and is owned by its member countries. These members include 26 borrowing member countries and 20 non-borrowing member countries. The five largest members by shareholdings are the United States, Argentina, Brazil, Mexico and Venezuela.

The principal office of the IADB is located in Washington, D.C. with offices in each of its borrowing member countries as well as in Paris and Tokyo.

The resources of the IADB consist of the Ordinary Capital, the Fund for Special Operations (FSO) and the Intermediate Financing Facility Account (IFF).

### Equity and Borrowings

**Equity:** The equity of the Bank includes the subscribed capital stock and reserves. The subscribed capital stock is divided into paid-in capital stock of \$4.3 billion and callable capital stock of \$96.6 billion. The callable capital stock is available as needed for debt service payments and thus provides the ultimate backing for borrowings and guarantees. It cannot be called to make loans. The Bank's Ordinary Capital has generated net income in every year since its inception, which has been substantially retained as reserves aggregating \$14.2 billion. During 2004, Income before SFAS 133 and currency transaction adjustments<sup>1</sup>, which is defined as "Operating Income" in this Information Statement, totaled \$862 million.

The IADB has a capital adequacy policy that tracks the sufficiency of economic capital, measured by the Total Equity to Loans Ratio or TELR<sup>2</sup>. The policy defines the desired level for the TELR as 38%, which must be reached in the medium term. As long as Operating Income is positive and the TELR is growing within a range between 32% and 38%, the Bank will charge standard loan charges. The TELR equaled 36.1% at the end of the year.

**Borrowings:** The IADB diversifies its borrowings by currency, maturity, format and structure to provide flexibility and cost-effectiveness in funding. Outstanding borrowings of \$46.8 billion, before swaps, were denominated in 16 currencies and included \$0.3 billion of short-term borrowings.

The IADB limits its Net Borrowings<sup>3</sup> to the callable capital stock of its non-borrowing member countries (the United States' share of such capital stock was 60.1%, with the

balance from Japan, Canada and the other nonregional members). Net Borrowings were \$32.5 billion, or 67.3% of the \$48.3 billion of callable capital stock of the non-borrowing member countries.

### Assets

**Loan Portfolio:** The principal earning asset is the loan portfolio amounting to \$49.8 billion, of which over 97% was sovereign-guaranteed and less than 3% was private sector lending without a sovereign guarantee. The IADB limits the total amount of outstanding loans and guarantees to the paid-in capital stock plus the general reserve and the callable capital stock of non-borrowing member countries. The Bank requires a guarantee engaging the full faith and credit of the relevant government when it lends to non-governmental borrowers. Certain private sector loans and guarantees, however, are made without requiring a sovereign guarantee.

Most outstanding loans are priced on a cost pass-through basis, in which the cost of borrowing, plus a lending spread and other charges, is passed to the borrower. The IADB lends and invests the proceeds of borrowings in the after swap currencies.

With respect to sovereign-guaranteed loans, loan service delays by a borrower in a member country may preclude new loan approvals to borrowers in that member country, may lead to suspension of loan disbursements to such borrowers and may result in the loan being declared due and payable. Historically, the loan portfolio has been substantially fully performing. The IADB does not reschedule sovereign-guaranteed loans and has not written off, and has no expectation of writing off, such loans from its Ordinary Capital. An Allowance for loan losses chiefly covers probable losses related to private sector loans. Such allowance totaled \$199 million, or approximately 0.4% of total outstanding loans.

<sup>1</sup> References to captions in the financial statements and related notes are identified by the name of the caption beginning with a capital letter every time they appear in the Information Statement.

<sup>2</sup> The TELR is the ratio of the sum of "Equity" (defined as paid-in capital stock, reserves and the allowance for loan losses, minus borrowing countries' local currency cash balances, net receivable from members, prepaid pension benefit costs and the cumulative impact of SFAS 133 and currency transaction adjustments) to outstanding loans and net guarantee exposure.

<sup>3</sup> "Net Borrowings" are borrowings and gross guarantee exposure, less qualified liquid assets (after swaps), and the special reserve assets, which are kept solely for meeting the Bank's obligations on borrowings and guarantees.

**Liquid Investments:** The Bank's liquidity policy calls for holdings of liquid assets to be sufficiently large to ensure that adequate resources are available to meet future cash flow needs. Bank policy calls for a ratio of the actual liquidity amount to a ceiling amount ("Liquidity Ratio") to be within 60% to 100% for each month-end, and within 70% to 90% for the annual average. At December 31, 2004, the Liquidity Ratio was 87% and the annual average was 90% for the year 2004. Net cash and investments totaled \$13.0 billion at the end of the year, equal to 28.9% of total debt (after swaps). Investments were held in liquid, high-quality securities.

#### **Risk Management**

The IADB conducts its operations within a framework of financial policies and follows a well-defined risk management

decision-making process, directed to avoid or limit its risk exposure. It minimizes exchange rate risk by matching its liabilities in various currencies with assets in those same currencies and the currency composition of its equity to that of its outstanding loans. The IADB also limits the interest rate risk in its loan and liquidity portfolios.

The amounts receivable and payable under currency and interest rate swaps totaled \$2.4 billion and \$0.8 billion, respectively. The credit risk exposure is managed by limiting swap activities to counterparties meeting specified credit-rating requirements and through netting and collateralization arrangements.

The above information is qualified by the detailed information and financial statements appearing elsewhere in this Information Statement. In addition, the Information Statement contains forward-looking information, which may be identified by such terms as "believes", "expects", "intends" or words of similar meaning. Such statements involve a number of assumptions and estimates that are based on current expectations, which are subject to risks and uncertainties beyond the IADB's control. Consequently, actual future results could differ materially from those currently anticipated. The Bank undertakes no obligation to update any forward-looking statements.

## FINANCIAL OVERVIEW

*Unless otherwise indicated, all financial information provided in this Information Statement refers to the Bank's Ordinary Capital.*

The financial strength of the Bank is based on the support it receives from its members and on its financial policies and practices. Member support is reflected in the capital backing received and in the diligence with which borrowing members meet their debt-service obligations. Prudent financial policies and practices have led the Bank to build reserves, diversify its funding sources, hold a large portfolio of liquid investments and limit a variety of risks, including credit, market and liquidity risks. The objective of the Bank is to earn an adequate level of income to preserve its financial strength and sustain its development activities. Box 1 presents selected financial data for the last five years.

The principal assets are loans to member countries. As of December 31, 2004, over 97% of loans outstanding were sovereign-guaranteed. Up to 10% of outstanding loans and guarantees, not including emergency loans, may be made directly to private sector entities without a sovereign guarantee, subject to a number of restrictions.

The Bank issues debt securities in a variety of currencies, maturities, structures and formats to investors worldwide. These borrowings, together with the Bank's equity, are used to fund lending and investment activities, as well as general operations.

Assets and liabilities are held primarily in United States dollars, euro, Japanese yen and Swiss francs. The Bank minimizes exchange rate risk by matching the currencies of its liabilities with those of its assets. The reported levels of assets, liabilities, income and expense are affected by exchange rate movements between such major currencies and the reporting currency, the United States dollar. The Bank matches the currencies of its equity with those of its loans, thus fluctuations in exchange rates do not significantly impact its risk-bearing capacity.

### Financial Highlights

During 2004, the Bank approved 56 loans amounting to \$5.3 billion as compared to 59 loans that totaled \$6.1 billion in 2003. The reduction in the amount of loan approvals was due to a decrease in emergency lending that was substantially offset by an increase in investment lending. Also, due largely to the decrease in emergency lending, disbursements in 2004 totaled the equivalent of \$3.8 billion, significantly lower than the \$8.4 billion disbursed in 2003. The undisbursed portion of approved loans increased to \$16.1 billion in 2004 from \$15.6 billion in 2003.

As of December 31, 2004, all loans were performing, except for certain loans to some private sector borrowers without sovereign guarantee in the aggregate amount of \$216 million (2003—\$237 million). The Allowance for loan losses amounted to \$199 million compared to \$183 million in 2003.

In 2004, the Bank issued debt securities for a total face amount of \$4.7 billion equivalent (2003—\$9.1 billion), that generated net proceeds of \$4.6 billion equivalent (2003—\$7.2 billion) and had an average life of 5.5 years (2003—9.5 years). Such debt securities were issued through a strategy of combining large global benchmark bonds with smaller transactions targeted to particular segments of demand. The decrease in 2004 borrowings was primarily attributable to a reduction in net cash outflows due to lower loan disbursements.

The Bank enters into currency and interest rate swaps as part of its borrowing operations. According to SFAS 133, these derivatives are valued at their fair value with changes in fair value recorded in earnings. Management believes that the reported income volatility of applying SFAS 133 is not representative of the underlying economics of the transactions as the Bank generally holds its derivatives and related bonds to maturity. Accordingly, Income before SFAS 133 and currency transaction adjustments is defined herein as "Operating Income", which is more representative of the net results of the Bank's operations. The effects of SFAS 133 and currency transaction adjustments are shown separately in the Statement of Income and General Reserve and are excluded from the determination of ratios and other financial parameters.

Operating Income was \$862 million in 2004 compared with \$1,064 million in 2003, excluding a non-recurring reduction in the Allowance for loan losses of \$1,370 million. The decrease was largely due to a reduction in loan fees and in the net interest margin on loans. Loan charges approved by the Board of Executive Directors remained unchanged in 2004 after the reduction approved in the second semester of 2003. Changes in market interest rates generally do not significantly affect Operating Income, as a substantial amount of the loans are cost pass-through loans, and the Bank broadly matches the interest rate structures of its liquid assets and the liabilities funding them.

The Effects of SFAS 133 and currency transaction adjustments for 2004 was substantially higher (\$314 million positive) than in the previous year due to the discontinuation of hedge accounting effective January 1, 2004. Upon discontinuance of hedge accounting, the basis adjustments on borrowings (see Borrowings in Note B to the financial statements) recorded in prior years are required to be amortized to earnings through the life of the respective borrowing. In addition, changes in market interest rates now affect the value of derivatives used to hedge borrowings without a corresponding offsetting adjustment to the basis of related borrowings. During 2004, the amortization of basis adjustments on borrowings and the change in market value of swaps due to interest rates amounted to an increase in income of \$250 million and \$48 million, respectively.

The Bank manages its financial condition by monitoring certain financial ratios, in particular the Total Equity to Loans Ratio or TELR. The TELR at December 31, 2004, was 36.1% compared with 33.0% at December 31, 2003. The increase experienced in 2004 was mostly due to an increase in equity while loans outstanding declined modestly.

**Box 1: Selected Financial Data**

The following information is based upon, and should be read in conjunction with, the detailed information and financial statements appearing in this Information Statement.

(Amounts expressed in millions of United States dollars)

	Years ended December 31,				
	2004	2003	2002	2001	2000
<b>Ratios</b>					
Net borrowings <sup>(1)</sup> as a percentage of callable capital stock subscribed by United States, Japan, Canada and the other nonregional members .....	67.3%	72.1%	70.0%	66.6%	61.9%
Interest coverage ratio <sup>(2)</sup> .....	1.55	2.49	1.40	1.44	1.33
Total equity <sup>(3)</sup> to loans ratio (TELR) .....	36.1%	33.0%	30.9%	30.5%	30.3%
Cash and investments as a percentage of borrowings outstanding, after swaps .....	28.9%	30.1%	30.7%	27.4%	32.4%
<b>Balance Sheet Data</b>					
Cash and investments-net <sup>(4)</sup> , after swaps	\$13,046	\$14,855	\$14,780	\$11,932	\$14,123
Approved loans					
Undisbursed portion of approved loans	16,093	15,619	18,570	20,506	20,876
Loans outstanding .....	49,842	50,655	47,958	44,951	41,872
Total assets .....	67,346	69,669	65,031	58,581	69,944
Borrowings outstanding <sup>(5)</sup> , after swaps ..	45,144	49,275	48,179	43,588	43,501
Equity					
Callable capital stock .....	96,611	96,611	96,611	96,619	96,619
(of which, subscribed by United States, Japan, Canada and the other nonregional members) .....	48,300	48,300	48,300	48,307	48,307
Paid-in capital stock .....	4,340	4,340	4,340	4,341	4,341
Reserves <sup>(6)</sup> .....	14,171	12,772	9,929	8,913	8,103
Total equity .....	18,511	17,112	14,269	13,254	12,444
<b>Income Statement Data</b>					
Loan income .....	\$ 2,498	\$ 2,711	\$ 2,639	\$ 3,191	\$ 3,061
Investment income .....	288	298	319	541	765
Borrowing expenses, after swaps .....	1,572	1,636	1,842	2,321	2,570
Loan and guarantee loss provision (credit) .....	21	(1,370)	100	147	174
Net non-interest expense .....	331	309	289	254	236
Operating Income .....	862	2,434	727	1,010	846
Effects of SFAS 133 and currency transaction adjustments <sup>(7)(8)</sup> .....	314	(1)	(19)	11	—
Net income .....	1,176	2,433	708	1,021	846
<b>Returns and Costs, after swaps</b>					
Return on:					
Average loans outstanding .....	5.02%	5.51%	5.73%	7.48%	7.81%
Average liquid investments .....	2.17%	2.00%	2.28%	4.13%	5.25%
Average earning assets .....	4.42%	4.70%	4.91%	6.65%	7.08%
Average cost of:					
Borrowings outstanding during the year	3.40%	3.37%	3.97%	5.34%	6.07%
Total funds available .....	2.53%	2.57%	3.09%	4.17%	4.80%
<b>Term Duration (in years)</b>					
Investments and loans .....	4.36	4.33	4.13	4.34	n/a
Debt .....	4.15	4.46	3.66	3.88	n/a

<sup>(1)</sup> Borrowings (after swaps) and gross guarantee exposure, less qualified liquid assets (after swaps) and the special reserve assets.

<sup>(2)</sup> The interest coverage ratio is computed using Operating Income and, in 2003, included a one-time reduction in the Allowance for loan losses of \$1.4 billion, which was credited to income.

<sup>(3)</sup> Paid-in capital stock, reserves and the allowance for loan losses, minus borrowing countries' local currency cash balances, net receivable from members, prepaid pension benefit costs and the cumulative effects of SFAS 133 and currency transaction adjustments.

<sup>(4)</sup> Net of Payable for investment securities purchased.

<sup>(5)</sup> Net of premium/discount.

<sup>(6)</sup> Including related Accumulated other comprehensive income.

<sup>(7)</sup> SFAS 133 refers to Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities", along with its related amendments.

<sup>(8)</sup> Effective January 1, 2004, the Bank discontinued the use of hedge accounting, resulting in a higher impact of SFAS 133.

n/a- Means not available.



## DEVELOPMENT OPERATIONS

### General

The Bank offers loans and guarantees to its borrowing member countries to help meet their development needs. Under certain conditions and a number of restrictions, loans and guarantees may also be made directly to private sector entities carrying out projects in the territories of borrowing member countries without a sovereign guarantee (Private Sector Program).

### Development Objectives

The Bank's two main goals are to promote environmentally sustainable growth, as well as poverty reduction and social equity. To attain these goals, the Bank focuses its work on four priority areas:

- Fostering competitiveness through support for policies and programs that increase a country's potential for development in an open global economy.
- Modernizing the state by strengthening the efficiency and transparency of public institutions.
- Investing in social programs that expand opportunities for the poor.
- Promoting regional economic integration by forging links among countries to develop larger markets for their goods and services.

### Lending Cycle

The process of identifying and assessing a project and approving and disbursing a loan often extends over several years. However, on numerous occasions the Bank has shortened the preparation and approval cycle in response to emergency situations such as natural disasters or economic crises. Generally, the Bank's operational staff (economists, engineers, financial analysts and other sector and country specialists) assess the projects. With certain exceptions, the Bank's Executive Directors must approve each loan.

Loan disbursements are subject to the fulfillment of conditions set out in the loan agreement. During implementation of the Bank-supported operations, experienced Bank staff review progress, monitor compliance with Bank policies and assist in resolving any problems that may arise. An independent Bank unit, the Office of Evaluation and Oversight, pursuant to an annual work plan approved by the Board of Executive Directors, evaluates some operations to determine the extent to which they have met their major objectives, and these evaluations are reported directly to the Executive Directors.

The Bank's lending operations conform to certain principles that, taken together, seek to ensure that loans made to member countries are for financially and economically sound purposes to which these countries have assigned high priority, and that funds lent are utilized as intended. These principles are detailed in **Box 2** below.

### Box 2: Lending Operations Principles

- (i) With the exception of the Private Sector Program, the Bank makes loans and guarantees to the public sector: governments, governmental entities and enterprises in the territories of member countries, and development institutions of its members.
- (ii) Loan applicants must submit a detailed proposal to the Bank. This proposal must specify the technical, economic and financial merits of the project as well as provide an evaluation of the project's expected environmental risks or impact and proposed mitigation measures as well as its impact on women and indigenous groups, as applicable.
- (iii) The Bank neither renegotiates nor takes part in debt rescheduling agreements with respect to its sovereign-guaranteed loans.
- (iv) Loan agreements typically include a negative pledge clause that generally prohibits a borrower from creating any encumbrances on its assets or revenues in respect of foreign currency debt, unless the Bank is equally and proportionally secured. The Board of Executive Directors has granted limited waivers in the past.
- (v) In making loans, the Bank evaluates the capacity of the borrower to carry out its financial obligations under the loan contract, the prevailing macroeconomic climate and debt burden of the country, and policy and institutional issues relevant to the loan.
- (vi) The Bank considers the ability of the borrower to obtain private financing under reasonable terms and conditions. The Bank serves as a catalyst to promote private investment, not to compete with it.
- (vii) The use of loan proceeds is supervised. Through the Bank's Country Offices in each of its 26 borrowing member countries, Bank staff monitor and supervise the on-going progress with respect to the development objectives of each operation, and fiduciary arrangements are in place to ensure proper use of Bank resources to achieve the operation's objectives.

## Loans

The Bank's sovereign-guaranteed lending generally falls into one of two categories: investment loans for specific projects or policy-based sector loans. Investment lending is generally used to finance goods, works and services in support of economic and social development projects in a broad range of sectors. Policy-based lending generally supports social, structural and institutional reforms with the aim of improving specific sectors of the borrowers' economies and promoting sustainable growth. These loans support the following economic sectors: energy, industry and mining, agriculture and fisheries, transportation and communications, trade finance, education, science and technology, water, sanitation and health, tourism, urban development, planning and reform, modernization of the state and the environment, as well as project preparation. The Bank has also instituted a program of emergency lending to address financial or economic crises.

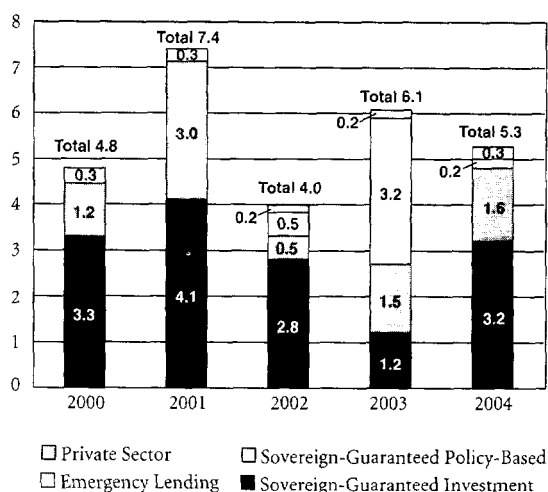
In addition, the Bank has a Private Sector Program under which loans and partial guarantees are provided directly to private sector entities without a sovereign guarantee, primarily for the financing of private investment in infrastructure, capital markets development activities and trade finance. These loans and guarantees are made on the basis of market-based pricing, are subject to certain eligibility requirements and cannot exceed 10% of the Bank's outstanding loans and guarantees, not including emergency lending. Such loans and guarantees are also subject to a number of restrictions, including a ceiling on financing the lesser of 25% (for certain countries, 40%) of the total costs of an individual project or \$75 million; the ceiling for partial risk guarantees is the lesser of 50% of the total costs or \$150 million.

Figure 1 presents a breakdown of approvals by loan type during the last five years. In 2002, the Board of Governors established a New Lending Framework for the three-year period from 2002–2004 that limits policy-based lending to a total of \$4.5 billion resulting in investment lending of \$5.2 billion annually. In addition, the Board of Directors authorized an emergency lending facility in a revolving aggregate amount of up to \$6 billion outstanding.

Over the past five years, sovereign-guaranteed investment lending per year has fluctuated between \$1.2 billion and \$4.1 billion. Policy-based lending has also fluctuated, with annual approval amounts of \$0.5 billion to \$3.0 billion.

Approvals under the Emergency Lending Facility amounted to \$500 million and \$3.2 billion in 2002 and 2003, respectively. For 2004, approvals were \$200 million.

**Figure 1: LOAN APPROVALS BY TYPE**  
For the years ended December 31, 2000 through 2004  
(Expressed in billions of United States dollars)



During 2004, loan approvals totaled \$5.3 billion (2003—\$6.1 billion). A summary of loan approvals by country during 2004 and 2003 appears in Table 1. Loan approvals decreased during 2004 as a result of a reduction of \$3.0 billion in the amount of emergency loans approved. This reduction was substantially offset by an increase in investment and policy-based loans, the core Bank business.

**Table 1: LOAN APPROVALS BY COUNTRY** <sup>(1)(2)</sup>  
For the years ended December 31, 2004 and 2003  
(Expressed in millions of United States dollars)

COUNTRY	2004	2003
Argentina	\$ 528	\$1,986
Bahamas	4	—
Bolivia	31	—
Brazil	2,542	339
Chile	23	68
Colombia	737	1,814
Costa Rica	11	6
Dominican Republic	337	31
Ecuador	17	233
El Salvador	—	100
Guatemala	101	113
Jamaica	57	30
Mexico	410	510
Panama	—	53
Paraguay	—	66
Peru	351	515
Suriname	11	12
Trinidad and Tobago	—	10
Uruguay	77	260
Venezuela	6	1
Regional	40	—
Total	<u>\$5,283</u>	<u>\$6,147</u>

<sup>(1)</sup> In 2004, one loan was approved under the emergency lending program to the Dominican Republic for \$200 million. During 2003, four emergency loans for a total of \$3,180 million were approved, including two loans to Argentina (\$1,900 million), one loan to Colombia (\$1,250 million), and one loan to Paraguay (\$30 million).

<sup>(2)</sup> Includes Private Sector Program lending.

At December 31, 2004, the total volume of outstanding loans was \$49.8 billion, \$0.9 billion lower than the \$50.7 billion at December 31, 2003. This decrease was mainly due to loan collections that were \$1.4 billion higher than disbursements, including the collection of \$1.3 billion of loans outstanding under the previous emergency lending program and \$514 million of loan prepayments, that were partially offset by \$624 million of currency translation adjustments. Undisbursed balances at December 31, 2004, totaled \$16.1 billion, an increase of \$0.5 billion from December 31, 2003. This change was mainly due to new approvals that were partially offset by disbursements and cancellations.

Under the Agreement, the total amount of outstanding loans and guarantees may not exceed, at any time, the total amount of subscribed capital, plus reserves and surplus, exclusive of income assigned to certain reserves, including a special reserve to meet borrowings and guarantee obligations. The Bank's policy, however, is more stringent and limits the total amount of outstanding loans and guarantees to its paid-in capital stock plus the general reserve and the callable capital stock of non-borrowing member countries. At December 31, 2004, the total amount of loans outstanding and gross guarantee exposure as a percentage of the policy limit, after excluding the cumulative effects of SFAS 133 and currency transaction adjustments, was 78.3% compared to 80.9% in 2003.

A summary statement of loans outstanding by country at December 31, 2004 and 2003 is set forth in Appendix I-3 to the financial statements.

## Financial Terms of Loans

### Currently Available Financial Terms

The Bank currently offers a product mix that provides borrowers with flexibility to select terms that are compatible with their

debt management strategy. As of December 31, 2004, the Bank offers the following two basic types of loan terms, each denominated in the currency or currencies chosen by the borrower, as available under the programs: Single Currency Facility (SCF) adjustable rate and LIBOR-based loans. SCF adjustable rate loans, which were introduced in 1996, have an interest rate that is adjusted every six months to reflect the currency-specific effective cost of the pool of borrowings allocated to such loans, plus the Bank's spread. The SCF LIBOR-based loans, introduced in 2003, have an interest rate that is adjusted quarterly, based on the currency-specific three-month LIBOR plus a pool-based margin reflecting the Bank's sub-LIBOR funding cost and the risk mitigation costs, as well as the Bank's spread.

In addition, the Bank offers emergency loans and U.S. Dollar Window Program loans (currently limited to \$500 million of loan approvals per calendar year) destined for on-lending to private sector borrowers, both with sovereign guarantee, and Private Sector Program loans without sovereign guarantee, under various terms.

Private Sector Program loans are denominated in United States dollars and borrowers have the option of either LIBOR-based fixed interest rate loans or floating rate loans. For fixed rate loans, the interest rate is fixed upon signature or for each disbursement, at a rate based on a LIBOR funding cost plus the lending spread. For floating rate loans, the interest rate resets every one, three or six months based on a LIBOR rate plus the lending spread. Lending spreads and fees are set on a case-by-case basis.

The main financial terms of currently available sovereign-guaranteed loan products are summarized in Table 2.

Table 2: CURRENTLY AVAILABLE FINANCIAL TERMS OF LOANS WITH SOVEREIGN GUARANTEE

Interest rate option	Single Currency Facility		U.S. Dollar Window		Emergency Lending
	Adjustable rate loans	LIBOR-based loans	Fixed rate loans	LIBOR-based loans	LIBOR-based loans
Currencies offered	USD, EUR, JPY, CHF or a combination of these currencies		USD		USD
Cost base	Weighted average cost of allocated debt	3-month LIBOR	LIBOR-based funding cost	6-month LIBOR	6-month LIBOR
Funding cost margin		Weighted average cost margin of debt allocated to this product		Weighted average cost margin of debt allocated to this product	
Risk mitigation cost <sup>(1)</sup>	Not applicable	50	Not applicable	Not applicable	Not applicable
Lending spread <sup>(1)</sup>	30	30	30	30	400
Credit commission <sup>(1)</sup>	25	25	25	25	75
Front-end fee <sup>(1)</sup>	Not applicable	Not applicable	Not applicable	Not applicable	100
Supervision and inspection fee <sup>(1)</sup>	0	0	0	0	Not applicable
Maturity	15–25 years		12 years	20 years	5 years
Grace period	For investment loans: original disbursement period For policy-based loans: 5 years		5 years		3 years

<sup>(1)</sup> Lending charges provided in basis points.

### Previously Available Financial Terms

In previous years, the Bank offered multicurrency loans with a sovereign guarantee, including loans under a Currency Pooling System (CPS) established in 1982 and discontinued in 2003. The Bank maintains a targeted currency composition in the CPS of 50% United States dollars, 25% Japanese yen and 25% European currencies. Loans approved prior to 1989 carry a fixed interest rate while loans approved from 1990 to 2003 carry an adjustable rate. The adjustable rate, which resets twice a year, represents the effective cost during the previous six months of a pool of borrowings allocated to fund such loans, plus the Bank's spread. At December 31, 2004, these loans represented 42.9% (2003—45.6%) of loans outstanding.

Table 3 presents a breakdown of the loan portfolio by loan product. For more information, see Appendix I-4 to the financial statements.

**Table 3: LOANS OUTSTANDING BY LOAN PRODUCT**  
December 31, 2004 and 2003

(Amounts expressed in millions of United States dollars)

	2004		2003	
	Amount	%	Amount	%
Single Currency Facility- adjustable .....	\$21,953	44.0	\$20,253	40.0
Single Currency Facility- LIBOR-based .....	608	1.2	185	0.4
U.S. Dollar Window .....	850	1.7	889	1.7
Emergency Lending .....	3,820	7.7	5,004	9.9
Private Sector Program ....	1,244	2.5	1,204	2.4
Currency Pooling System ..	21,158	42.5	22,864	45.1
Others .....	209	0.4	256	0.5
Total .....	<u>\$49,842</u>	<u>100.0</u>	<u>\$50,655</u>	<u>100.0</u>

### Charges on Loans with Sovereign Guarantee (Excluding Emergency Lending)

The Bank's standard loan charges for loans made under the SCF, the U.S. Dollar Window Program and the CPS consist of a lending spread of 0.30% per annum on the outstanding amount, a credit commission of 0.25% per annum on the undisbursed convertible currency portion of the loan, and no supervision and inspection fee. Standard loan charges are subject to semi-annual approval by the Board of Executive Directors, and are expected to remain constant, except under extraordinary circumstances. Prior to July 2003, lending spreads and loan charges were established according to the then applied net income target policy. Table 4 shows loan charges prevailing during the periods indicated.

**Table 4: LOAN CHARGES**

	Lending spread %	Credit commission %	Supervision and inspection fee %
2002 .....	0.10	—	—
2003:			
First semester .....	0.50	0.50	0.50
Second semester .....	0.30	0.25	—
2004 .....	0.30	0.25	—

### Guarantees

The Bank may make partial guarantees either without a sovereign counter-guarantee under the 10% limit for the Private Sector Program mentioned above, or for public sector operations with a member sovereign counter-guarantee. Guarantees under the Private Sector Program are denominated in United States dollars. Guarantees for public sector operations were, until recently, only offered in convertible currencies. Since August 2004, however, the Bank has been authorized to offer guarantees in local currencies for public sector operations with a member sovereign convertible currency counter-guarantee. Regardless of the currency in which a guarantee is denominated, the Bank's exposure is, in all cases, capped at an amount in United States dollars determined at the time each guarantee is approved. As of December 31, 2004, the Bank had not approved any guarantees with a sovereign counter-guarantee.

To date, the Bank has issued, as part of its Private Sector Program, partial guarantees designed to encourage private sector investments and local capital market development. The partial risk guarantees and partial credit guarantees are provided mostly for infrastructure projects, and may be offered on a stand-alone basis or in conjunction with a Bank loan. Partial risk guarantees cover specific risk events related to non-commercial factors (such as currency convertibility, transferability of currencies outside the host country and government non-performance). Partial credit guarantees cover payment risks for selected project borrowings or debt issuances. The terms of all guarantees are specifically set in each guarantee agreement and are primarily tied to a project or the terms of debt issuances. On a case-by-case basis, depending upon the risks covered and the nature of each individual project, the Bank may reinsure certain guarantees to reduce its exposure. Guarantee exposure is measured as the future guaranteed cash flows, net of reinsurance, when applicable, discounted to the current period.

During 2004, four Private Sector Program guarantees were approved for a total amount of \$185 million compared to two guarantees for a total amount of \$85 million in 2003. As of December 31, 2004, guarantees of \$331 million (2003—\$342 million) were outstanding and subject to call. No guarantees have ever been called. The net present value of guarantee exposure, net of reinsurance, which is the amount counted towards the Private Sector Program's limit, was \$191 million at December 31, 2004 (2003—\$197 million).

During 2004, the Bank approved a Trade Finance Facilitation Program for up to \$400 million under which partial credit guarantees may be issued to local banks on short-term trade-related transactions. As of December 31, 2004, no guarantees had been issued under this program.

## LIQUIDITY MANAGEMENT

The Bank invests its liquid assets in highly rated debt securities and deposits. These instruments include obligations of highly rated governments, government agencies, multilateral organizations, financial institutions, and corporate entities, including asset-backed securities. In addition, the Bank uses derivatives, mostly currency and interest rate swaps, to manage its investment portfolios.

Liquidity plays a key role in the management of the Bank's funding risks by addressing the risk that the Bank may not have adequate funds to meet both future loan disbursement and debt service obligations. The objective of liquidity management is to ensure that adequate resources are available to meet anticipated contractual obligations and to ensure uninterrupted financial operations in the event the Bank were to refrain from borrowing in response to unattractive market conditions or other constraints. The Bank's liquidity management principles are set forth in Box 3 below.

### Box 3: Liquidity Management Principles

The primary objective in the management of the Bank's liquidity is to limit exposure to credit, market and liquidity risks. Within the constraints determined by this primary objective, the Bank strives to maximize returns on the invested asset portfolio while limiting the volatility of the Bank's net investment income, which is the spread between investment returns and funding costs.

The Bank manages its liquidity through financial policies, instruments and guidelines, which serve as the rules, procedures and tools that define the Bank's liquidity management. The Investment Resolution approved by the Board of Executive Directors provides the basic authority within which liquidity is invested. The Investment Guidelines approved by management establish the detailed operating, compliance and monitoring conditions for the implementation of the liquidity management. Both are designed to ensure that the Bank assesses market and credit risks, and establishes investment constraints consistent with the Bank's level of risk tolerance. For information concerning the management of risk exposures on liquidity see "Financial Risk Management" below.

The Bank's liquidity policy is to maintain its holdings of liquid assets, excluding special reserve investments and investments funded by the short-term borrowing facility, at a level not to exceed an annual established liquidity ceiling equivalent to the sum of 50% of the estimated undisbursed balance on signed loans at the end of the current year, plus 33% of estimated net cash requirements for the current and the succeeding year. Bank policy calls for the ratio of the actual liquidity amount to the ceiling amount ("Liquidity Ratio") to be within 60% to 100%

for each month-end, and within 70% to 90% for the annual average. At December 31, 2004, the Liquidity Ratio was 87%, compared with 74% at December 31, 2003, and the average Liquidity Ratio was 90% and 84% during 2004 and 2003, respectively. During the year, liquid assets averaged \$13.4 billion compared to \$15.0 billion in 2003.

The Bank has short-term borrowing facilities that consist of a discount note program and uncommitted borrowing lines from various commercial banks. Discount notes are issued in amounts of not less than \$100,000, with maturities of no more than 360 days. These short-term funding facilities are used to cover short-term cash flow needs.

Liquid investments are maintained in three distinct sub-portfolios: transactional, operational and held-to-maturity (HTM), each with different risk profiles and performance benchmarks. The transactional portfolio is used to meet the day-to-day cash flow requirements. The operational portfolio holds the minimum prudential liquidity as defined by the Liquidity Ratio. The HTM portfolio primarily consists of the special reserve assets.

The returns of the liquid investment portfolios in 2004 and 2003 are shown in Table 5. The higher yield levels on the total portfolio in 2004, as compared to 2003, are primarily due to the overall increase in short-term interest rates as more than three quarters of the investments are floating rate (LIBOR-indexed). The yield level on LIBOR-based investments does not affect net income since it is financed with matching LIBOR-indexed debt. HTM yields decreased during the year due to a decline in the reinvestment yield available.

**Table 5: LIQUID INVESTMENT PORTFOLIOS <sup>(1)</sup>**  
December 31, 2004 and 2003  
(Amounts expressed in millions of United States dollars)

Portfolio	2004		2003	
	Ending Balance	Financial Return (%) <sup>(2)</sup>	Ending Balance	Financial Return (%) <sup>(2)</sup>
Transactional .....	\$ 67	1.41	\$ 622	1.12
Operational .....	8,980	1.74	10,324	1.53
Held-to-Maturity ...	3,789	3.32	3,562	3.67
Overall Portfolio ....	<u>\$12,836</u>	2.17	<u>\$14,508</u>	2.00

<sup>(1)</sup> After swaps and net of Payable for investment securities purchased.

<sup>(2)</sup> Combined return for all currencies in each portfolio.

### Contractual Obligations

In the normal course of business, the Bank enters into various contractual obligations that require future cash payments. The most significant contractual obligations relate to the repayment of borrowings. The maturity structure of medium- and long-term borrowings outstanding at December 31, 2004 is presented in Appendix I-5 to the financial statements. In addition, the Bank has a number of other obligations to be settled in cash, which are reflected in its financial statements, including undisbursed loans, short-term borrowings, payable for currency and interest rate swaps and payable for investment securities purchased.

## SOURCES OF FUNDS

### Equity

Total equity at December 31, 2004, was \$18.5 billion compared with \$17.1 billion at December 31, 2003. The increase primarily reflects the net income for the year and translation adjustments.

The Bank's equity base plays a critical role in securing its financial objectives. By enabling the Bank to absorb risk out of its own resources, its equity base protects member countries from a possible call on callable capital stock. For risk management purposes, the Bank monitors equity as defined and utilized in the TELR, which measures the adequacy of its risk-bearing capacity. Table 6 presents the composition of this measure at December 31, 2004 and 2003. See "Financial Risk Management—Credit Risk—Capital Adequacy Framework" below, for more information on the TELR.

**Table 6: TOTAL EQUITY TO LOANS RATIO**  
December 31, 2004 and 2003  
(Amounts expressed in millions of United States dollars)

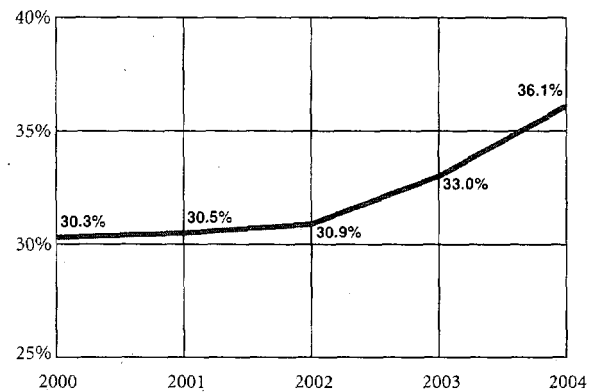
	2004	2003
<b>Equity</b>		
Paid-in capital stock .....	\$ 4,340	\$ 4,340
General reserve <sup>(1)</sup> .....	11,636	10,270
Special reserve <sup>(1)</sup> .....	2,535	2,502
<b>Plus:</b>		
Allowance for loan losses .....	199	183
<b>Minus:</b>		
Borrowing countries' local currency		
cash balances .....	143	125
Net receivable from members .....	95	294
Prepaid pension benefit costs .....	138	126
Cumulative effects of SFAS 133 and		
currency transaction adjustments ..	289 <sup>(2)</sup>	(35)
<b>Equity used in Total Equity</b>		
<b>to Loans Ratio</b> .....	\$18,045	\$16,785
<b>Loans outstanding and net</b>		
<b>guarantee exposure</b> .....	\$50,033	\$50,852
<b>Total Equity to Loans Ratio</b> .....	<u>36.1%</u>	<u>33.0%</u>

<sup>(1)</sup> Including Accumulated other comprehensive income.

<sup>(2)</sup> Includes an \$11 million Reclassification to income-cash flow hedges.

As presented in Table 6, the TELR increased from 33.0% at December 31, 2003, to 36.1% at December 31, 2004, which is within the current capital adequacy policy band, established in 2003, of 32% to 38%. The increase was mainly due to an increase in equity in the face of a modest decline in loans outstanding. The TELR has increased steadily during the last five years, as shown in Figure 2, reflecting a relatively higher growth in the equity base than in loans. This increase is contemplated in the Bank's capital adequacy policy under which the TELR is projected to reach its upper level of 38% in the medium term.

**Figure 2: TOTAL EQUITY TO LOANS RATIO**



### Capitalization

Shareholders' support for the Bank is reflected in the capital backing it has received from its members. At December 31, 2004, subscribed capital stock was \$100.9 billion, of which \$4.3 billion had been paid in and \$96.6 billion was callable. For a list of the members' subscriptions to capital stock, voting power and number of shares subscribed, refer to Appendices 1-6 and I-7 to the financial statements.

Paid-in and callable capital stock subscriptions are payable as follows:

**Paid-in capital stock:** Each subscription to paid-in capital stock has been paid, in whole or in part, in gold, United States dollars, or the currency of the respective member country. In the case of most payments made in the currency of the respective member country, the member country has made arrangements satisfactory to the Bank to assure that, subject to the provisions of the Agreement, its currency will be freely convertible (or the member country has agreed to convert its currency on behalf of the Bank) into the currencies of other countries for the purposes of the Bank's operations. The Bank has accepted non-negotiable, non-interest-bearing demand obligations in lieu of the immediate payment of all or a part of the member's subscription to the paid-in capital stock. Under the Agreement such obligations are accepted where currencies are not required for the Bank's operations.

**Callable capital stock:** The callable portion of the capital stock subscriptions is subject to call only when required and to the extent necessary to meet the obligations of the Bank on borrowings of funds or guarantees. In the event of a call, payment may be made at the option of the member in gold, United States dollars, fully convertible currency of the member country or in the currency required to discharge the obligations of the Bank for the purpose for which the call is made. Calls are required to be uniform, but obligations of the members of the Bank to make payment upon such calls are independent of each other. Failure of one or more members to make payments on any such call would not excuse any other member from its obligation to make payment, and successive calls could be made on non-

defaulting members if necessary to meet the Bank's obligations. However, no member could be required on any such call to pay more than the unpaid balance of its capital stock subscription. No call has ever been made on the Bank's callable capital stock.

At December 31, 2004, the total subscription of the United States, the Bank's largest shareholder, was \$30.3 billion, of which the United States had paid \$1.3 billion as subscriptions to the Bank's paid-in capital stock. Of the United States' callable capital stock subscription of \$29.0 billion, \$3.8 billion had been fully authorized and appropriated, without fiscal year limitation, by United States legislation, and no further appropriation is necessary to enable the Secretary of the Treasury to pay this amount if any part were to be called to meet obligations of the Bank. The balance of the United States' callable capital stock subscription, \$25.2 billion, has been authorized by the United States Congress but not yet appropriated. In 1979, in connection with the United States' subscription to an increase in the callable capital stock, the Bank obtained an opinion of the General Counsel of the Treasury stating that appropriations were not legally required to back subscriptions to such callable capital stock unless and until payment was required of the United States on a call made by the Bank. The opinion further states that an appropriation is not required to make United States callable capital stock subscriptions, authorized by United States legislation, binding obligations backed by the full faith and credit of the United States, and that an obligation contracted by the United States pursuant to a Congressional grant of authority for constitutional purposes is fully binding on the United States notwithstanding that a future appropriation might be necessary in order to fund that obligation.

#### Recent Developments in Bank Membership

The Board of Governors approved the admission of the Republic of Korea to membership in the Bank. The membership terms provide for subscription to eight shares of paid-in capital and 176 shares of callable capital. These shares represent a portion of the shares acquired by the Bank from the settlement of accounts with Bosnia, which declined membership accession to the shares of the former Socialist Federal Republic of Yugoslavia. The Republic of Korea must undertake certain actions for its membership in the Bank to become effective.

#### Borrowings

The Bank raises funds in the international capital markets primarily through the issuance of debt securities. To diversify its sources of funding, the Bank issues its debt securities in various currencies, maturities, formats and structures to meet the needs of global institutional and retail investors. Under the Agreement, the Bank may borrow only with the approval of the member country in whose markets the debt securities are sold and the member country in whose currency the borrowings are denominated. In addition, the Bank is required to obtain the agreement of each such member country that the proceeds may be exchanged by the Bank for the currency of any other member country without restriction. The Bank's borrowing policy is summarized in Box 4.

#### Box 4: Borrowing Policy

The Bank's policy is to limit the amount of its Net Borrowings to the subscribed callable capital stock of its non-borrowing member countries (the United States, Japan, Canada and the other nonregional members). Net Borrowings is the amount of borrowings plus gross guarantee exposure, less qualified liquid assets and the special reserve assets. Special reserve assets can only be used for meeting the Bank's obligations on borrowings and guarantees. As of December 31, 2004, Net Borrowings represented 67.3% of the subscribed callable capital stock of the non-borrowing member countries compared to 72.1% in 2003.

The objectives of the Bank's borrowing strategy are to secure long-term capital market access, volume and cost effectiveness. The Bank uses derivatives, mostly currency and interest rate swaps, for hedging purposes as part of its liability management to achieve the desired currency composition and interest rate structure as well as to lower its funding costs. The Bank closely monitors and regulates its activities with dealers and counterparties (see "Financial Risk Management—Credit Risk—Commercial Credit Risk" below). The amount and timing of the Bank's borrowings are determined in part by loan disbursements, maturing debt and liquidity levels (see "Liquidity Management" above).

In 2004, net proceeds of medium- and long-term debt raised directly in financial markets amounted to \$4.6 billion compared to \$7.2 billion in 2003. The decrease in 2004 borrowings was primarily attributed to lower cash flow requirements. Borrowing operations for 2004 and 2003 are summarized in Table 7.

**Table 7: SUMMARY OF ANNUAL BORROWING OPERATIONS**  
For the years ended December 31, 2004 and 2003  
(Amounts expressed in millions of United States dollars)

	2004	2003
Total medium- and long-term borrowings <sup>(1)</sup> .....	\$4,618	\$7,158
Average life <sup>(2)</sup> .....	5.5	9.5
Number of transactions .....	19	29
Number of currencies .....	9	6

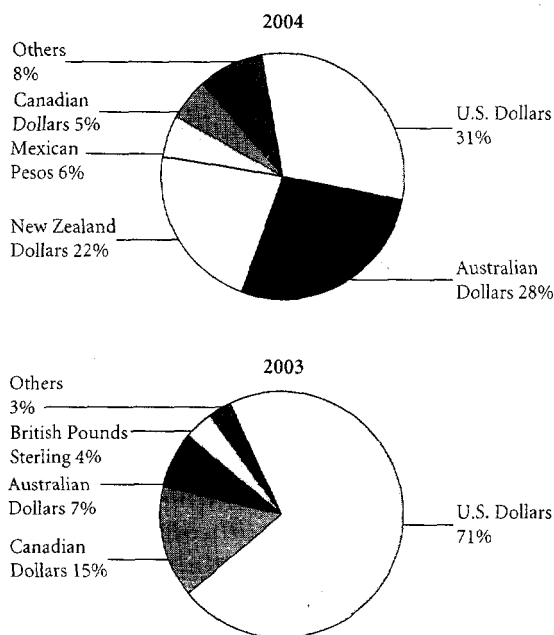
<sup>(1)</sup>Represents net proceeds on a trade date basis.

<sup>(2)</sup>Average life to the first call date.

Borrowings raised in any given year are used for general operations, including loan disbursements and refinancing of maturing debt. In 2004, the Bank issued its inaugural bonds denominated in Brazilian reais, Colombian pesos and Mexican pesos. The Bank also issued a global \$1 billion bond maturing in 2014. In addition, the Bank transacted various bonds denominated in Australian dollars, Canadian dollars, Hong Kong dollars, New Zealand dollars, South African rand and United States dollars.

New medium- and long-term borrowings by currency for 2004, as compared to 2003, are shown in Figure 3. In 2004 and 2003, all non-United States dollar borrowings were swapped into United States dollars.

**Figure 3: BORROWINGS BY CURRENCY<sup>(1)</sup>**  
For the years ended December 31, 2004 and 2003



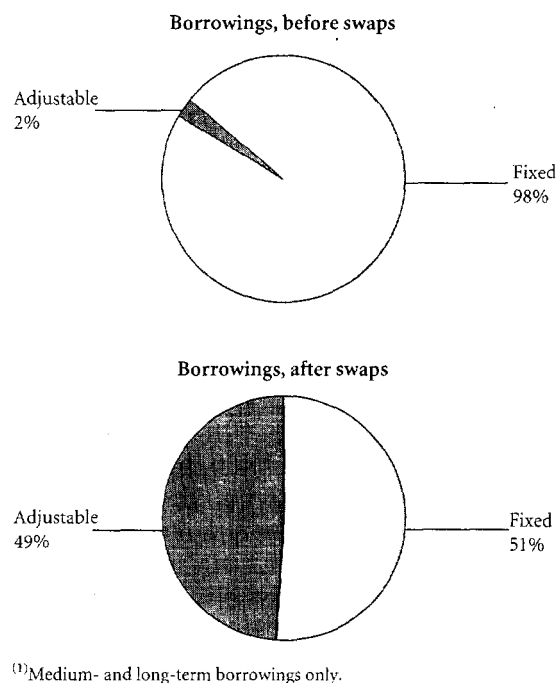
<sup>(1)</sup>Includes medium- and long-term borrowings, excluding swaps, and represents net proceeds on a trade date basis.

The Bank strategically repurchases, calls or prepays its debt to reduce the cost of borrowings and the exposure to re-funding requirements in a particular year, or to meet other operational needs. In response to market conditions during 2004, the Bank called \$183 million of its outstanding borrowings compared to \$1.1 billion in 2003.

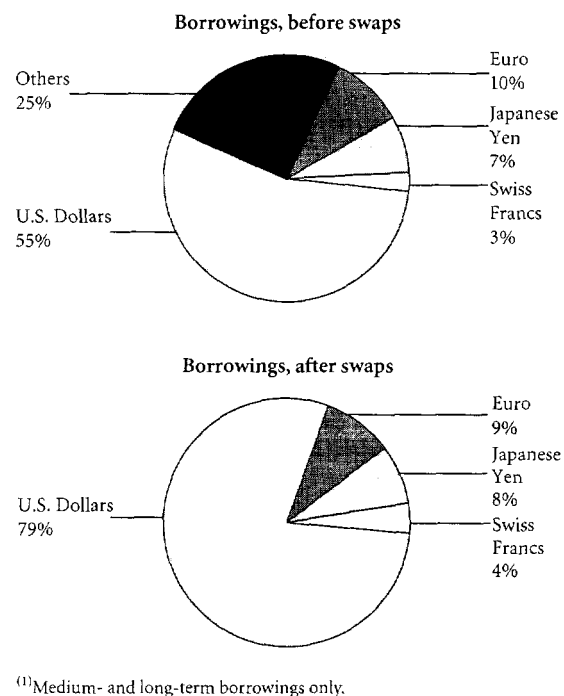
**Use of Derivatives:** The Bank may enter into currency and interest rate swaps to convert its borrowings into euro, Japanese yen, Swiss francs or United States dollars and fixed or floating rate funding to meet its loan disbursement obligations. In 2004, all new borrowings were initially swapped into floating rate United States dollars, with conversion to fixed-rate funding being carried out subsequently in accordance with funding requirements. As part of the risk mitigation component of the SCF LIBOR-based loan pricing alternative, the Bank purchases caps to reduce its exposure to sudden increases in interest rates. Figures 4 and 5 illustrate the effect of swaps on both the interest rate structure and currency composition of the medium- and long-term borrowing portfolio at December 31, 2004.

More detailed information with respect to the Bank's borrowings and derivatives is contained in Notes G and H and Appendix I-5 to the financial statements.

**Figure 4: EFFECTS OF SWAPS ON INTEREST RATE STRUCTURE OF OUTSTANDING BORROWINGS<sup>(1)</sup>**  
December 31, 2004



**Figure 5: EFFECTS OF SWAPS ON CURRENCY COMPOSITION OF OUTSTANDING BORROWINGS<sup>(1)</sup>**  
December 31, 2004





## RESULTS OF OPERATIONS

### Operating Income

Operating Income includes the net interest income on earning assets and the income contribution of the Bank's capital, other loan income, the provision for loan and guarantee losses and net non-interest expenses. Table 8 shows the breakdown of Operating Income during the last three years.

**Table 8: OPERATING INCOME**  
(Expressed in millions of United States dollars)

	2004	2003	2002
Loan interest income .....	\$2,446	\$2,602	\$2,616
Investment income .....	288	298	319
	2,734	2,900	2,935
Less:			
Borrowing expenses .....	1,572	1,636	1,842
Net interest income .....	1,162	1,264	1,093
Other loan income .....	52	109	23
(Provision) credit for loan and guarantee losses .....	(21)	1,370	(100)
Net non-interest expense .....	(331)	(309)	(289)
Operating Income .....	<u>\$ 862</u>	<u>\$2,434</u>	<u>\$ 727</u>

**Year 2004 versus 2003:** In 2004, Operating Income declined to \$862 million compared to \$1,064 million in 2003, after excluding a non-recurring reduction in the Allowance for loan losses of \$1,370 million. The decrease was mainly due to a reduction in net interest income and other loan income as well as an increase in net non-interest expense, which is chiefly comprised of administrative expenses. In 2003, as a result of changes in man-

agement's assessment of the risk of loss on loans outstanding, the Bank revised certain estimates used to compute the loan loss allowance. The resulting change in estimates caused the non-recurring reduction referred to above, which was credited to income.

**Year 2003 versus 2002:** Operating Income for 2003 was \$1,064 million, after excluding the reduction in the Allowance for loan losses, \$337 million higher than 2002. The majority of this increase was due to an increase in net interest income and other loan income, that was partially offset by an increase in net non-interest expense, which is chiefly comprised of administrative expenses.

### Net Interest Income

The average interest-earning asset and interest-bearing liability portfolios, after swaps, and the respective returns and costs for 2004, 2003, and 2002 are shown in Table 9.

**Year 2004 versus 2003:** Net interest income decreased \$102 million in 2004 with respect to 2003, primarily due to lower lending spreads, a reduction in emergency loans outstanding, lower returns on the equity funded component of loans, and the six-month lag inherent in the pool-based lending rate calculation. Such decrease was partially offset by an increase in equity resources.

**Year 2003 versus 2002:** Net interest income increased \$171 million in 2003 compared to 2002, primarily due to higher lending spreads, changes in the outstanding loan balances and an increase in equity resources, that was partially offset by lower returns on the equity funded component of loans.

**Table 9: ASSET/LIABILITY PORTFOLIOS AND RETURNS/COSTS**  
(Amounts expressed in millions of United States dollars)

	2004		2003		2002	
	Average Balance	Return/Cost %	Average Balance	Return/Cost %	Average Balance	Return/Cost %
Loans <sup>(1)</sup> .....	\$49,721	4.92	\$49,193	5.29	\$46,053	5.68
Liquid investments .....	13,415	2.17	15,014	2.00	14,269	2.28
Total earning assets .....	63,136	4.34	64,207	4.52	60,322	4.88
Borrowings .....	46,200	3.40	48,590	3.37	46,347	3.97
Interest rate spread .....		0.94		1.15		0.91
Net interest margin <sup>(2)</sup> .....		1.84		1.97		1.81

<sup>(1)</sup> Excludes loan fees.

<sup>(2)</sup> Represents net interest income as a percent of average earning assets.

### Net Non-interest Expense

The main components of net non-interest expense are presented in Table 10.

**Table 10: NET NON-INTEREST EXPENSE**  
(Expressed in millions of United States dollars)

	2004	2003	2002
<b>Administrative expenses</b>			
Staff costs .....	\$279	\$257	\$247
Consultant fees .....	44	43	42
Operational travel .....	19	19	18
Other expenses .....	62	67	69
<b>Total gross administrative expenses</b> .....	404	386	376
Less: Share of Fund for Special Operations .....	(62)	(58)	(60)
<b>Net administrative expenses</b> ...	342	328	316
Service fee revenues .....	(6)	(6)	(7)
Income from pension and postretirement plans .....	—	(8)	(13)
Other income .....	(5)	(5)	(7)
<b>Net non-interest expense</b> .....	<u>\$331</u>	<u>\$309</u>	<u>\$289</u>

**Year 2004 versus 2003:** Net non-interest expense increased by \$22 million in 2004 mainly due to a \$20 million increase in pension and postretirement benefit costs (benefit cost of \$19 million in 2004 versus net benefit income of \$1 million in 2003) that resulted from lower expected investment returns from these plans.

**Year 2003 versus 2002:** Net non-interest expense increased by \$20 million in 2003 mainly due to regular salary increases and lower postretirement benefit income.

## FINANCIAL RISK MANAGEMENT

As part of its development banking services, the Bank is exposed to credit risk (loan portfolio or country credit and commercial credit); market risk (interest rate, spread and exchange rate); liquidity risk (funding and liquidation); and operational risk.

### Governance

The Bank conducts its operations within a framework of financial policies, uses only financial instruments that have been specifically authorized, and follows a well-defined risk management decision-making process.

The Bank manages its risks in accordance with the Agreement, and such other policies as are approved by its Board of Governors, its Board of Executive Directors and the Finance Committee composed of members of management. Additionally, a Finance Department committee on asset and liability management, chaired by the Finance Manager, develops guidelines and oversees implementation of, and compliance with, the Bank's financial risk management approach in matters of risk,

asset and liability management, funding and investments and strategic financial planning.

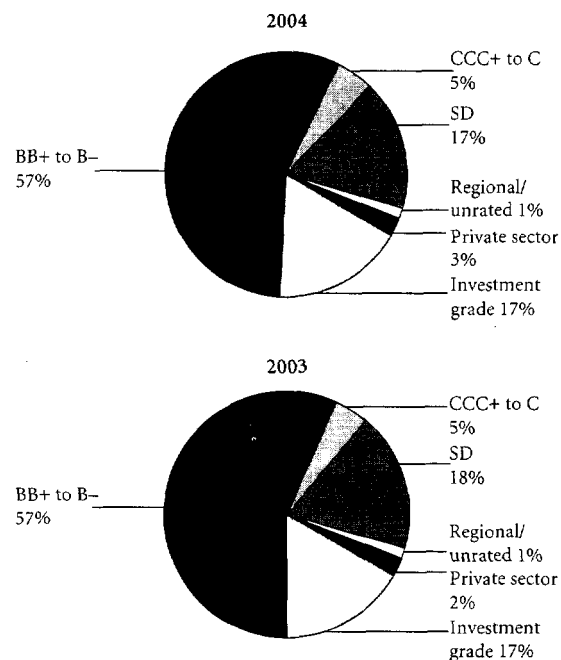
### Credit Risk

Credit risk is the potential loss that could result from the default of borrowers (that is, loan portfolio credit risk or country credit risk) or from the default/downgrade of investment, trading or swap counterparties (that is, commercial credit risk). Almost all of the Bank's loans are sovereign-guaranteed.

**Loan Portfolio Credit Risk:** Loan portfolio credit risk is the risk that the Bank may not receive repayment of principal and/or interest on one or more of its loans according to the agreed-upon terms. It is directly related to the Bank's core business and is the largest financial risk faced by the Bank. The Bank has multiple sources of protection from loan portfolio credit risk, including an overall lending limitation, a comprehensive capital adequacy framework (designed to ensure that the Bank holds sufficient equity at all times given the quality and concentration of its portfolio), a policy for the treatment of non-performing loans and a policy for the maintenance of a loan loss allowance. The Bank's loan portfolio credit risk is determined by the credit quality of, and exposure to, each borrower. Overall, these two factors have remained largely unchanged in 2004 from their 2003 levels.

The credit quality of the loan portfolio as of December 31, 2004, as represented by the long-term foreign currency credit ratings assigned to each borrowing country by the rating agencies, is depicted in Figure 6. Although, as shown, the overall

**Figure 6: CREDIT QUALITY OF LOAN PORTFOLIO REFLECTED IN RATINGS OF BORROWING MEMBER COUNTRIES**  
December 31, 2004 and 2003



credit profile has not changed significantly during the past year, the ratings of the borrowing members have demonstrated steady improvement since falling to a low in the first semester of 2003. During 2004, countries holding 40% of the outstanding loans received ratings upgrades, while less than 3% of the outstanding loan balance was held by countries that were downgraded. The ratings of the remaining countries, which account for over 57% of the sovereign portfolio, were unchanged. Of these, Argentina, representing approximately 17% of the portfolio, was rated in selective default. (As of December 31, 2004, Argentina was current on its debt service with the Bank.) Five of the borrowing member countries, totaling more than 17% of the portfolio, hold investment grade ratings. The sovereign portfolio has a weighted average rating of B+, which does not reflect the strong repayment performance of the Bank's borrowers, who hold significant ownership interest in the Bank.

The Bank's exposure reflects the overall size and concentration of the portfolio. Exposure is limited only by the Bank's lending authority; there are no per-country lending limits. Taking into consideration the regional nature of the Bank's operations and the relative sizes of the economies of its borrowing members, the Bank expects to consistently have a concentrated portfolio. As shown in Figure 7, as of December 31, 2004, 69% of the portfolio is held by the five largest borrowers. Refer to Appendix I-3 to the financial statements for more information.

**Lending Limitation:** With respect to the overall lending limitation, the Bank's policy is to limit the total amount of outstanding loans and guarantees to its paid-in capital stock plus the general reserve and the callable capital of the non-borrowing member countries. This lending limit is stricter than

that prescribed by the Agreement, which also includes the callable capital of the borrowing members.

**Capital Adequacy Framework:** The capital adequacy framework of the Bank consists of a credit risk model, a policy on capital adequacy and an associated lending rate methodology. The framework allows the Bank to manage the risk inherent in its loan portfolio due to the credit quality of its borrowers and the concentration of its loans, while also offering its borrowers low and stable loan charges.

The Bank's economic capital is measured by the TELR, whose desired level, to be reached in the medium term, is 38%. As long as Operating Income is positive and the TELR is growing within a range between 32% and 38%, the Bank will apply standard loan charges. These charges generate sufficient income to cover the Bank's expenses and continue building its reserves. The desired level for the TELR of 38% was determined based on analysis of the Bank's economic capital needs under various hypothetical financial stress scenarios.

**Non-performing Loans:** Except for non-sovereign-guaranteed loans to private sector borrowers, loan service delays by a borrower in a member country preclude new loan approvals to borrowers in the member country, may lead to suspension of loan disbursements, may result in the loan being placed in non-accrual status, and the loan may be declared due and payable. The Bank exercises its policy under a graduated approach as summarized in Table 11.

If loans made to a member country funded with resources of the FSO or of any other fund owned or administered by the Bank are non-performing, all loans made to or guaranteed by that member government are also considered non-performing. The Bank maintains a continuous dialogue with its borrowers to ensure prompt payment on all of its loans.

In the case of direct loans to the private sector, an internal Bank committee determines when the loan is classified in nonaccrual status, which can happen anytime between 30 and 90 days of being overdue or, if special circumstances warrant, at any time prior to the expiry of 30 days. At December 31, 2004, all loans were performing, except for certain Private Sector Program loans, which were classified as impaired and were in nonaccrual (see Note E to the financial statements).

**Loan Loss Allowance:** Because of the nature of its borrowers and guarantors, the Bank expects that each of its Ordinary Capital sovereign-guaranteed loans will ultimately be repaid. In addition, the Bank has had an essentially fully performing sovereign-guaranteed loan portfolio since its establishment. During the Bank's 45 years of history, only five borrowing countries have been in nonaccrual, for varying times during 1988–1992. The maximum aggregate balance in nonaccrual never exceeded 8% of total loans outstanding, and the Bank ultimately received the full principal and interest due on these loans. The Bank maintains an allowance for loan losses to recognize the probable losses inherent in its loan portfolios, primarily related to private sector loans. Pursuant to Bank policy,

**Figure 7: CONCENTRATION OF LOAN PORTFOLIO  
December 31, 2004 and 2003**

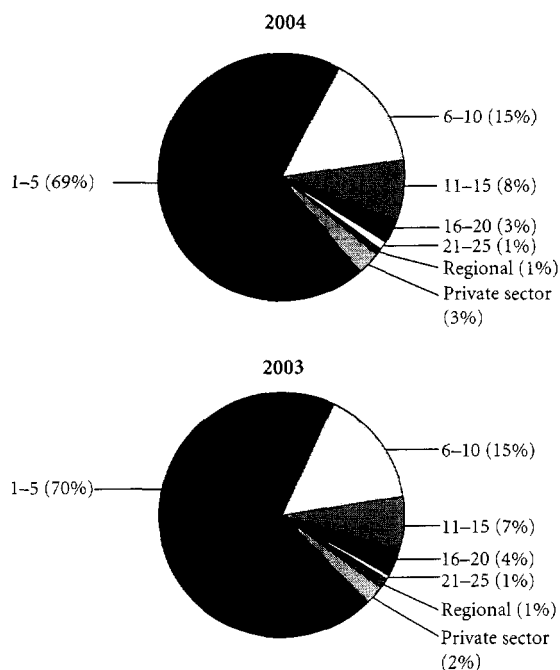


TABLE 11: TREATMENT OF NON-PERFORMING SOVEREIGN LOANS

30 days after loan due date	The Bank suspends disbursements on the loan in arrears and all other loans to the borrower. The Bank informs the guarantor of the arrears by the borrower and requests prompt payment of the amount in arrears. No loan contract with a borrower in the country in question is signed by the Bank and no loan proposal is approved.
120 days after loan due date	The Bank suspends disbursements on all loans to the guarantor and guaranteed by the guarantor if the guarantor fails to pay the amounts due.
180 days after loan due date	The Bank places in nonaccrual status all loans for the country in question of which the government, the central bank or any government entity is a borrower or guarantor, unless it is determined that all payments of amounts in arrears are in process and will be collected in the immediate future. Placement in nonaccrual status implies a reversal of all accrued income to date and no further income accumulation until all pending amounts are received. All Bank missions to the country intended for the programming, preparing or processing of loans are suspended.

a provision of \$21 million was charged to income during 2004, for a total allowance of \$199 million at December 31, 2004 (2003—\$183 million). At December 31, 2004, the Private Sector Program allowance for loan and guarantee losses was 10.5% of the corresponding outstanding portfolio (2003—10.2%).

**Commercial Credit Risk:** Commercial credit risk is the potential loss that could result from either the default or the downgrade by a credit rating agency of one of the Bank's investment, trading or swap counterparties. The main sources of commercial credit risk are the financial instruments in which the Bank invests its liquidity. In accordance with its conservative risk policies, the Bank will only invest in high quality debt instruments issued by governments, government agencies, multilateral organizations, financial institutions and corporate entities, including asset-backed securities. The Bank's process for controlling its commercial credit risk includes: a) specifying authorized investments; b) establishing approved lists of acceptable counterparties, issuers and dealers; c) defining acceptable credit rating limits; and d) specifying exposure limits and term limits for acceptable counterparties, issuers and dealers based on their size and creditworthiness.

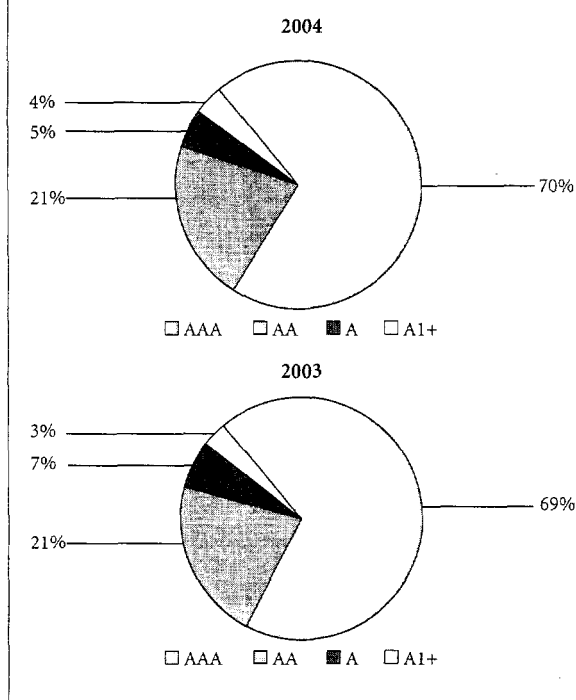
As part of its regular investment, funding and asset and liability management activities, the Bank uses derivative instruments, primarily swaps, for hedging purposes. The Bank limits the use of derivatives to authorized dealers and counterparties selected on the basis of conservative risk management policies. The Bank has established exposure limits for each swap counterparty and has entered into master swap agreements that contain enforceable closeout netting provisions. These agreements also provide for collateralization in the event that the mark-to-market exposure exceeds certain contractual limits. Monitoring the Bank's exposures and managing such risks are continuous processes. The Bank does not expect nonperformance by any of its counterparties.

The Bank treats its derivative credit exposure as the replacement cost of the relevant derivative instrument. This is also referred to as replacement risk or the mark-to-market exposure amount. Mark-to-market exposure is a measure, at a point in time, of the value of a derivative contract in the open market. When the mark-to-market is positive, it indicates that the counterparty owes the Bank and, therefore, creates an exposure for

the Bank. When the mark-to-market is negative, the Bank owes the counterparty and does not have replacement risk. When the Bank has more than one derivative transaction outstanding with a swap counterparty, the "net" mark-to-market exposure represents the netting of the positive and negative exposures with the same counterparty. If this net mark-to-market is negative, then the Bank's exposure to the counterparty is considered to be zero.

Figure 8 provides details of the estimated credit exposure on investments by issuer rating category. As of December 31, 2004, the credit exposure for the whole investment portfolio amounted to \$13.0 billion compared to \$14.9 billion at December 31, 2003. The credit quality of the investment portfolio for

Figure 8: INVESTMENT CREDIT EXPOSURE BY ISSUER RATING  
December 31, 2004 and 2003



2004 continues to be high, as 91% of the issuers were rated AAA and AA, and an additional 4% of the portfolio is comprised of the highest rated short-term asset-backed commercial paper, virtually unchanged from 2003. Figure 9 provides details of the estimated credit exposure (netted by counterparty) on the swap portfolio, by rating category. As of December 31, 2004, the swap credit exposure increased to \$1.8 billion from \$1.1 billion a year earlier. The credit quality of the swap portfolio continues to be high, as 92% of the counterparties were rated AAA and AA in 2004, compared to 97% in 2003. The increase in the proportion of single A-rated swap counterparty exposure in 2004 was due to the increase in the positive mark-to-market valuations of the underlying derivative transactions. These swap credit exposures are collateralized. As of December 31, 2004, \$1 billion of eligible collateral had been posted with the Bank's custodian (compared to \$415 million in 2003), which significantly reduced the credit exposure on swaps discussed above.

### Market Risk

The Bank faces risks that result from market movements, primarily changes in interest and exchange rates. However, exposure to market risks is small as the Bank has an integrated asset and liability management framework.

**Asset and Liability Management:** The objective of asset and liability management is to ensure adequate funding for each product at the most attractive cost available, and to manage the currency composition, maturity profile and interest rate sensi-

tivity characteristics of the portfolio of liabilities supporting each lending product in accordance with the particular requirements for that product and within prescribed risk parameters. The Bank employs derivatives to manage and align the characteristics of its assets and liabilities, enhance investment returns and lower borrowing costs.

**Interest Rate Risk:** The Bank is exposed to two potential sources of interest rate risk. The first is the interest rate sensitivity associated with the net spread between the rate earned on assets and the cost of borrowings that fund those assets. The second is the interest rate sensitivity of the income earned from funding a portion of its assets with equity.

The Bank mitigates its exposure to net spread sensitivity through a cost pass-through formulation incorporated in the lending rates charged on most of its existing loans, in addition to a carefully designed term structure management. These cost pass-through loans account for 85.3% of the existing outstanding loan portfolio as of December 31, 2004; the remaining 14.7% are emergency loans, private sector loans and fixed-rate loans. Some of the cost pass-through loans, primarily the adjustable rate loans, pose some residual interest rate risk given the six-month lag inherent in the lending rate calculation (see "Development Operations—Financial Terms of Loans" above). The Bank funds and invests its liquidity at matching rate structures using specific duration gap constraints, thus avoiding any undue exposure to interest rate risk.

The Bank mitigates its exposure to equity-induced income sensitivity by investing these funds in long-term loan assets, producing relatively stable returns.

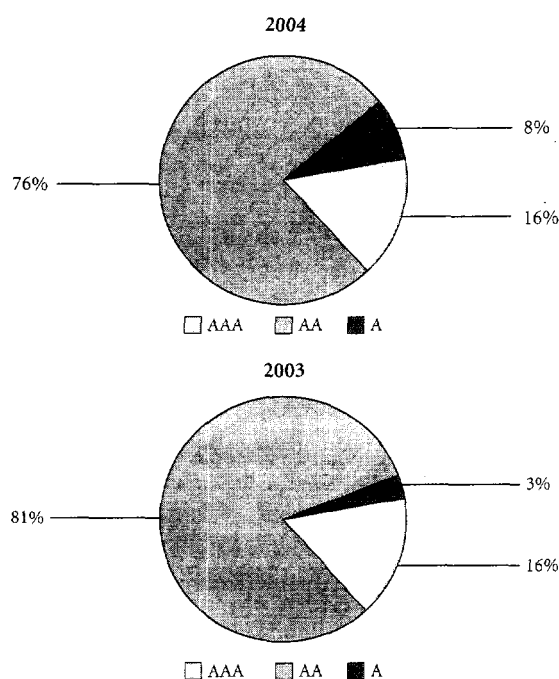
**Exchange Rate Risk:** In order to minimize exchange rate risk in a multicurrency environment, the Bank matches the after-swap borrowing obligations in any one currency with assets in the same currency, as prescribed by the Agreement. In addition, the Bank's policy is to minimize the exchange rate sensitivity of its TELR by performing periodic currency conversions to maintain the currencies underlying its Equity and Allowance for loan losses aligned with those of the outstanding loans and net guarantee exposure. In order to minimize currency misalignments, the Bank also aligns the currency composition of the special reserve assets with that of its outstanding borrowings.

Figure 10 presents the currency composition of the Bank's assets and liabilities (after swaps) at the end of 2004 and 2003.

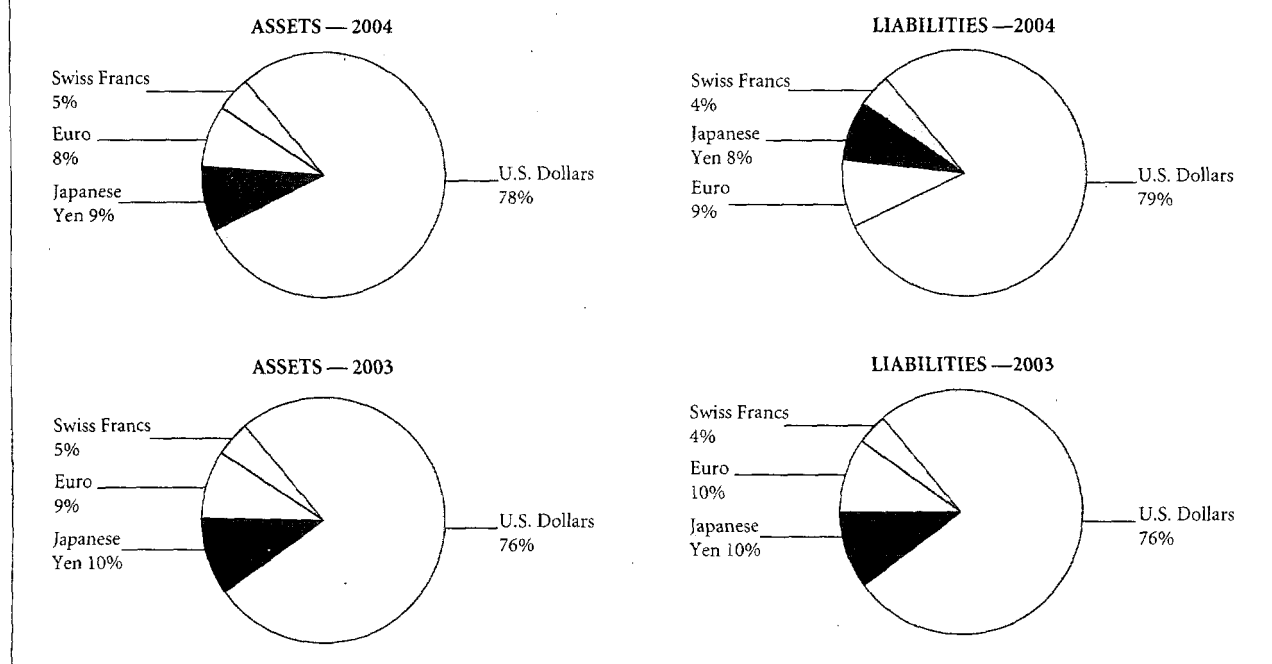
### Liquidity Risk

Liquidity risk arises from the general funding needs of the Bank's activities and in the management of its assets and liabilities. It includes the risk of being unable to fund the portfolio of assets at appropriate maturities and rates (that is, funding risk); the risk of being unable to liquidate a position in a timely manner at a reasonable price (that is, liquidation risk); and the exacerbation of these two risks from having significant portions of a portfolio of assets or liabilities allocated to a specific type of instrument (that is, concentration risk).

**Figure 9: SWAPS CREDIT EXPOSURE BY COUNTERPARTY RATING**  
December 31, 2004 and 2003



**Figure 10: CURRENCY COMPOSITION OF ASSETS & LIABILITIES**  
December 31, 2004 and 2003



The Bank manages liquidity risk through its liquidity policy, asset-liability management policy and its short-term borrowing program. The Bank's liquidity policy determines a minimum amount of liquidity, which is designed to allow the Bank to refrain from borrowing for a period of time while continuing to meet its own obligations. The asset and liability management of the Bank, in addition to optimizing the allocation of equity and debt to fund the Bank's various assets, determines the proper term-duration gap between loans and debt to both lower funding costs and reduce refunding risk. Finally, under the short-term borrowing program, discount notes with maturities of less than one year are issued to cover short-term cash flow needs whenever the liquidation of a position is not desirable.

### Operational Risk

Operational risk is the potential loss arising from internal activities or external events, caused by breakdowns in information, communication, physical safeguards, business continuity, supervision, transactions processing, pricing, cash and securities movements and settlement systems. In addition, operational risk includes fraud and failures in the execution of legal, fiduciary and agency responsibilities.

Within the Bank there are policies and procedures in place covering all significant aspects of operational risk. These include first and foremost the Bank's high standards of business ethics and its established system of internal controls. These are supplemented by the Bank's disaster recovery/contingency planning, the Information Disclosure Policy, client and project integrity due diligence procedures and procurement and purchasing policies. For more information, see "Administration and Governance of the Bank—Ethical Matters" below.

## ADDITIONAL REPORTING AND DISCLOSURE

### Basis of Reporting

The financial statements are prepared in accordance with United States generally accepted accounting principles (GAAP), which requires management to make estimates and assumptions that affect the reported results (see Note B to the financial statements).

### Critical Accounting Policies

The Bank believes that some of the more significant accounting policies it uses to present its financial results in accordance with GAAP involve a relatively high degree of judgment and complexity and relate to matters that are inherently uncertain.

**Fair Value of Financial Instruments:** The Bank uses fair value estimates to account for the trading investments portfolio and all derivatives (mostly interest and currency swaps), and for disclosures of financial instruments. Until December 31, 2003, the Bank also used fair value estimates to determine adjustments to the carrying amounts of hedged loans and borrowings designated in hedge accounting relationships. Fair values are based on market prices when they are available. If market quotes are not available, fair values are based on dealer prices, prices of comparable instruments or discounted cash flows using pricing models. Pricing models use inputs from market sources such as interest rate yield curves, currency exchange rates and option volatility. These assumptions may have a significant effect on the reported fair values of assets and liabilities (including deriv-

atives) and related income and expenses. Management believes its estimates of fair value are reasonable given its processes for obtaining external prices and parameters and the consistent application of this approach from period to period.

Changes in the fair value of trading securities and related derivatives are presented in Income from investments on the Statement of Income and General Reserve. Changes in the fair value of all derivatives other than investment derivatives and, up to December 31, 2003, of those assets and liabilities linked to derivatives and designated as fair value hedges in accordance with SFAS 133, are reported in Effects of SFAS 133 and currency transaction adjustments. See "Effects of SFAS 133 and Currency Transaction Adjustments" below.

**Loan Loss Allowance:** The Bank maintains an allowance for losses on its loan and guarantee portfolio at levels management believes to be adequate to absorb estimated losses inherent in the total portfolio at the balance sheet date. Setting the level of the allowance requires significant judgment. The use of different estimates or assumptions as well as changes in external factors could produce materially different provisions and allowance levels. Because of the nature of its borrowers and guarantors, the Bank expects that each of its sovereign-guaranteed loans will ultimately be repaid. Accordingly, the level of its loan loss allowance is relatively small and mainly related to the private sector loan portfolio.

#### **Effects of SFAS 133 and Currency Transaction Adjustments**

As required by SFAS 133, the Bank marks to market all derivative instruments with changes in fair value recognized in income. Up to December 31, 2003, the Bank designated in hedging relationships most of the derivatives related to its borrowing and lending activities, following the SFAS 133 criteria. Accordingly, changes in the fair values of hedged assets and liabilities were also recognized in income, substantially offsetting the derivatives mark to market adjustments in previous years. The changes in fair value of both the derivative instrument and the underlying borrowing included changes in fair value due to changes in exchange rates, which offset each other almost entirely under hedge accounting.

Effective January 1, 2004, the Bank elected to discontinue hedge accounting for all its SFAS 133 hedging relationships while continuing to measure all derivatives at fair value, with changes in fair value recognized in income. The discontinuation of hedge accounting resulted in the disassociation of the changes in fair value due to changes in exchange rates of the underlying borrowing, namely currency transaction adjustments according to GAAP, from the corresponding changes in fair value of the related derivative instrument. Management considers that these two elements are economically related and hence are reported together in a separate line in the Statement of Income and General Reserve.

The discontinuation of hedge accounting required the Bank to start amortizing the basis adjustments on borrowings previously recorded under SFAS 133. In addition, a slight decrease in long-term interest rates in 2004 caused a small increase in the value of the borrowing swaps. While economically this

increase has been offset by a corresponding increase in the value of the fixed rate borrowings, the Bank's current application of SFAS 133 requires that only derivative instruments be marked to market. During 2004, the amortization of basis adjustments on borrowings and the change in market value of swaps due to interest rates amounted to an increase in income of \$250 million and \$48 million, respectively (for additional information, see Note H to the financial statements). As a result, Effects of SFAS 133 and currency transaction adjustments was substantially higher in 2004 than in previous years (positive \$314 million in 2004, and negative \$1 million and \$19 million in 2003 and 2002, respectively). Management believes that this reported income volatility is not representative of the underlying economics of the transactions as the Bank generally holds its borrowing swaps to maturity.

## **ADMINISTRATION AND GOVERNANCE OF THE BANK**

The Bank's administration is composed of the Board of Governors, the Board of Executive Directors, the President, the Executive Vice President, the Vice President for Finance and Administration, other officers and the staff.

#### **The Board of Governors**

All the powers of the Bank are vested in the Board of Governors, which consists of one Governor and one Alternate appointed by each member country. The Governor or Alternate Governor from each member exercises the voting power to which that member is entitled, each member having 135 votes plus one vote for each share of capital stock of the Bank held. The Agreement as amended provides that subscriptions to the capital stock will not become effective if the result would be to reduce the voting power of (i) the regional developing countries below 50.005%; (ii) the United States below 30%; or (iii) Canada below 4% of the total voting power. This permits nonregional members to have a voting power of up to 15.995%, including approximately 5% for Japan. A list of the members at December 31, 2004, showing the voting power and the number of shares subscribed by each member, is set forth in the Statement of Subscriptions to Capital Stock and Voting Power (see Appendix I-7 to the financial statements). The Board of Governors holds regular annual meetings.

#### **The Board of Executive Directors**

The Board of Executive Directors consists of 14 Directors: one appointed by the United States, one elected by the Governor for Canada, three elected by the Governors for the nonregional member countries and the remaining nine elected by the Governors for the borrowing member countries. Executive Directors are persons of recognized competence and wide experience in economic and financial matters. The members of the Board also bring to the Bank valuable multicultural viewpoints that are consistent with its multilateral nature. Each Executive

Director appoints an Alternate who has full power to act for the Executive Director when he or she is not present. Directors serve full-time, generally for a period of three years.

The Board of Governors has delegated to the Board of Executive Directors all its powers except certain powers reserved to the Governors under the Agreement. Each Executive Director is entitled to cast the number of votes of the member country which appointed him or, if elected, the number of votes that counted toward his election. All matters before the Board of Governors and the Board of Executive Directors are decided by a majority of the total voting power of the Bank, except in certain cases provided in the Agreement that require a higher percentage.

The Executive Directors have established several standing committees, including the Audit Committee, the Budget and Financial Policies Committee, the Organization, Human Resources, and Board Matters Committee, the Policy and Evaluation Committee, the Programming Committee and the Ethics Committee.

The Board of Executive Directors, including its Committees, functions in continuous session at the principal offices of the Bank and meets as often as business requires. Unless otherwise decided by the Board, the Committees do not vote on issues before their consideration but rather make, when appropriate, recommendations to the full Board of Executive Directors.

The following is an alphabetical list of the members of the Board of Executive Directors, the member countries by which they were appointed or elected and the Alternates appointed by the Executive Directors as of the date of this Information Statement:

In July 2004, the Board of Executive Directors approved the establishment of the Audit Committee, thereby separating into a specialized committee certain audit-related functions previously overseen by the former Budget, Financial Policies and Audit Committee. Additionally, the Board approved a series of corporate governance recommendations, including the mandatory rotation, on a staggered basis, of the external auditors' engagement and independent review partners at least every five years, and the establishment of an orientation and continuing education program for members of the Audit Committee.

The primary functions of the Audit Committee are to assist the Board of Executive Directors in overseeing the Bank's (i) financial reporting, (ii) risk management and internal control processes, (iii) internal and external audit functions, including ensuring external auditors' independence, (iv) activities in promoting institutional integrity, and (v) communications of senior management and the Executive Directors with the external auditors.

The Audit Committee consists of eight members of the Board of Executive Directors. Non-Committee Board members may attend the meetings of the Audit Committee and participate in discussions. The Audit Committee meets regularly and as circumstances dictate, and may meet periodically in executive sessions with the Bank's management and the external auditors. The Committee may obtain advice and assistance from outside advisors, as deemed appropriate to perform its duties and responsibilities.

Executive Directors	Alternates	Member Countries
Charles Bassett (Canada)	Jill Johnson (Canada)	Canada
Adina Bastidas (Venezuela)	Fernando Eleta (Panama)	Panama and Venezuela
Havelock Brewster (Guyana)	Jerry Butler (The Bahamas)	The Bahamas, Barbados, Guyana, Jamaica and Trinidad and Tobago
José Carlos Castañeda (Guatemala)	Sandra de Midence (Honduras)	Belize, Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua
Jorge Crespo-Velasco (Bolivia)	Juan E. Notaro Fraga (Uruguay)	Bolivia, Paraguay and Uruguay
Eugenio Díaz-Bonilla (Argentina)	Martín Bès (Argentina)	Argentina and Haiti
Luis Guillermo Echeverri (Colombia)	Jaime Pinto Tabini (Peru)	Colombia and Peru
Agustín García-López (Mexico)	Roberto B. Saladín (Dominican Republic)	Dominican Republic and Mexico
Giorgio Leccesi (Italy)	Ina-Marlene Ruthenberg (Germany)	Belgium, Germany, Israel, Italy, The Netherlands and Switzerland
Héctor E. Morales (United States)	*	United States
Michel Planque (France)	Marta Blanco (Spain)	Austria, Denmark, Finland, France, Norway, Spain and Sweden
Germán Quintana (Chile)	Byron Solis (Ecuador)	Chile and Ecuador
Rogério Studart (Brazil)	Arlindo Villaschi (Brazil)	Brazil and Suriname
Yoshihisa Ueda (Japan)	Stewart Mills (United Kingdom)	Croatia, Japan, Portugal, the Republic of Korea, Slovenia and United Kingdom

\* Vacant



**Office of Evaluation and Oversight:** The Office of Evaluation and Oversight, which reports directly to the Board of Executive Directors, undertakes independent and systematic evaluations of the Bank's strategies, policies, programs, activities, delivery support functions and systems, and disseminates the findings of such evaluations so that recommendations for improvement can be used in new operations. The Office of Evaluation and Oversight also provides oversight and support for the enhancement of the effectiveness of the Bank's evaluation system.

### Principal Officers

The President is elected by the Board of Governors. Under the direction of the Board of Executive Directors, he conducts the ordinary business of the Bank and is its chief of staff. The President also serves as the presiding officer at meetings of the Board of Executive Directors, and has no vote at such meetings, except when his vote is needed to break a tie.

The Executive Vice President is appointed by the Board of Executive Directors on the recommendation of the President. Under the direction of that Board and the President, the Executive Vice President exercises such authority and performs such functions in the administration of the Bank as may be determined by that Board and, in the absence or incapacity of the President, exercises the authority and performs the function of the President.

The Vice President for Finance and Administration is appointed by the President, and reports to the Executive Vice President. Under the direction of the Board of Executive Directors, the President and the Executive Vice President, the Vice President for Finance and Administration is responsible for overseeing all finance, corporate planning and administration aspects of the Bank and, in the absence or incapacity of the President and the Executive Vice President, exercises the authority and performs the functions of the President.

The following is a list of the principal officers of the Bank as of the date of this Information Statement:

Enrique V. Iglesias	President
Dennis E. Flannery	Executive Vice President
João Sayad	Vice President for Finance and Administration
Ricardo L. Santiago	Operations Regional Manager 1
Miguel E. Martínez	Operations Regional Manager 2
Ciro de Falco	Operations Regional Manager 3
John R. Hauge	Finance Manager
J. James Spinner	General Counsel
Carlos Ferdinand	Secretary of the Bank
Manuel Rapoport	Development Effectiveness and Strategic Planning Manager, and Chief Development Effectiveness Officer
William Schuerch	Budget and Corporate Procurement Manager
Nohra Rey de Marulanda	Integration and Regional Programs Manager
Hiroshi Toyoda	Private Sector Manager
Carlos M. Jarque	Sustainable Development Manager

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Manuel Labrado  
Guillermo Calvo  
Eloy B. García  
Elizabeth J. Folsom  
Mirna Liévano de Marques  
Carlos N. Guimarães

Information Technology and General Services Manager  
Human Resources Manager  
Chief Economist  
Treasurer  
Auditor General  
External Relations Advisor  
Private Sector Coordinator

Stephen A. Quick is the director of the Office of Evaluation and Oversight.

\* Vacant

### Ethical Matters

The Bank fosters an ethical work environment for its staff and is committed to safeguard the activities financed by the Bank from fraud and corruption. To this end, the Bank has taken several measures, some of which are described below.

**Codes of Ethics:** The Bank requires highly qualified, dedicated and motivated staff members to maintain the highest standards of integrity. To assist in preserving such institutional standards, the Bank has in place a Code of Ethics that applies to all employees. This Code, which is available on the Bank's website: [www.iadb.org/leg/Documents/Pdf/EthicsCode-Eng.pdf](http://www.iadb.org/leg/Documents/Pdf/EthicsCode-Eng.pdf), contains guidelines concerning conflicts of interest, use of Bank information, and a staff member's financial and business interests, among other matters.

The Board approved in October 2003 a Code of Ethics applicable to the Executive Directors. This Code, which is also available on the Bank's website: [www.iadb.org/ocfc/doc/Edethics.pdf](http://www.iadb.org/ocfc/doc/Edethics.pdf), sets forth guiding principles relating to duty and loyalty to the institution, non-interference in the internal political affairs of the Bank's member countries and confidentiality of information, among other topics.

The Bank has separate Ethics Committees responsible for the interpretation and enforcement of the Code of Ethics for staff members and for Executive Directors, respectively.

**Office of Institutional Integrity:** In October 2003, the Bank established the Office of Institutional Integrity (OII), an independent unit reporting directly to the President, to enhance the Bank's framework in promoting institutional integrity. OII complies with its mandate through education and training, as well as through the detection, investigation and prevention of fraud, corruption and misconduct. Allegations of corrupt or fraudulent activities involving Bank-financed activities or Bank staff may be reported to the OII in person, by telephone, e-mail, facsimile, regular mail, or through the allegations forms available on the Bank's website: [www.iadb.org/oii](http://www.iadb.org/oii). Such allegations may be made confidentially or anonymously.

**Oversight Committee on Fraud and Corruption:** The Oversight Committee on Fraud and Corruption (OCFC) oversees the Bank's efforts against fraud and corruption in its sponsored programs and activities. It is chaired by the Executive Vice President, and its members include the Vice President for Finance

and Administration, the General Counsel and the Auditor General. The OCFC reports directly to the President. The Secretariat for the OCFC is the OII.

**Sanctions Committee:** Subject to the approval of implementing measures under consideration by the Bank's Board of Executive Directors, the Bank has established Sanctions Procedures to deal with allegations of fraud and corruption in Bank-funded activities. These Procedures provide for the creation of a Sanctions Committee to review claims of wrongdoing on the part of firms and individuals bidding for or participating in Bank-financed activities, and to determine what sanctions, if any, are appropriate. Possible sanctions may include a reprimand, the imposition of conditions for future participation in Bank procurement, and temporary suspension or permanent debarment from Bank corporate and project procurement.

#### External Auditors

**General:** The external auditors are appointed by the Board of Governors following a process of international competitive bidding. In 2002, Ernst & Young LLP (E&Y) was appointed as external auditors. Pursuant to an agreement between the Bank and E&Y, the parties may extend, on a yearly basis through 2006, E&Y's existing appointment.

E&Y was paid \$387,000 for audit services provided to the Bank in connection with the audit of the 2004 financial statements. In addition, E&Y was paid \$126,000 during 2004 for services related to bond issuance, consulting services related to the possible implementation of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control-Integrated Framework and other consulting services related to Bank financed projects. E&Y also provides audit services to trust funds administered by the Bank and to the Bank's staff retirement plans. Contracted fees expected to be paid for services related to the 2004 audits of such trust funds and plans amount to \$366,000.

**External Auditors' Independence:** The Audit Committee is responsible for, among other matters, assisting the Board of Executive Directors in overseeing the external audit function, including ensuring external auditors' independence. In this regard, the Committee is guided by the following key principles:

- The work plan of the external auditors, including audit and audit-related services, must be approved by the Board of Executive Directors, based on the recommendation of the Audit Committee.
- Any other services to be performed by the external auditors on an exceptional basis may be hired by management following criteria established by the Audit Committee.
- The external auditors' engagement and review partners must rotate, on a staggered basis, at least every five years.
- The performance of the external auditors is evaluated annually.
- The external auditors' independence must be confirmed annually by the Audit Committee.

- The external auditors have full access to the Audit Committee and the Board of Executive Directors.

#### The Agreement Establishing the Bank

The Agreement Establishing the Inter-American Development Bank, the international treaty establishing the Bank, sets forth the Bank's purpose and functions, and its capital structure and organization. The Agreement outlines the operations in which the Bank may engage and prescribes limitations on these operations. The Agreement also establishes the status, immunities and privileges of the Bank and provides for the disposition of the currencies available to the Bank, the withdrawal and suspension of members and the suspension and termination of the Bank's operations.

The Agreement provides that it may be amended only by decision of the Board of Governors by a majority of the total number of Governors, including two-thirds of the Governors of regional members, representing not less than three-fourths of the total voting power of the member countries. The unanimous agreement of the Board of Governors is required for the approval of any amendment modifying the right to withdraw from the Bank, the right to purchase capital stock of the Bank and to contribute to the FSO, and the limitation on liability. The Agreement provides that any question of interpretation of its provisions arising between any member and the Bank or among members of the Bank shall be submitted to the Board of Executive Directors for decision. Such decision may then be submitted to the Board of Governors, whose decision shall be final. Although any member may withdraw from the Bank by delivering written notice of its intention to do so, any such member remains liable for all direct and contingent obligations to the Bank to which it was subject at the date of delivery of the notice.

Copies of the Agreement are available for inspection and distribution at the Bank's office in Washington, D.C. The full text of the Agreement is also available on the Bank's website at [www.iadb.org/leg/Documents/Pdf/Convenio-Eng.pdf](http://www.iadb.org/leg/Documents/Pdf/Convenio-Eng.pdf).

#### Legal Status, Immunities and Privileges

The following is a summary of the principal provisions of the Agreement relating to the legal status, immunities and privileges of the Bank in the territories of its members.

The Bank possesses juridical personality and has full capacity to contract, to acquire and dispose of immovable and movable property, and to institute legal proceedings. Actions may be brought against the Bank only in a court of competent jurisdiction in the territories of a member in which the Bank has an office, has appointed an agent for the purpose of accepting service or notice of process, or has issued or guaranteed debt securities. No action shall be brought against the Bank by members or persons acting for or deriving claims from members.

The property and assets of the Bank are immune from all forms of seizure, attachment or execution before the delivery of final judgment against the Bank. Such property and assets are also immune from search, requisition, confiscation, expropriation or any other form of taking or foreclosure by executive or

legislative action. The archives of the Bank are inviolable. The Governors, Executive Directors, their Alternates, officers and employees of the Bank are immune from legal process with respect to acts performed by them in their official capacity, except when the Bank waives this immunity.

The Bank, its property, other assets, income and the operations and transactions it carries out pursuant to the Agreement are immune from all taxation and from all customs duties in its member countries. The Bank is also immune from any other obligation relating to the payment, withholding or collection of any tax or duty.

Under the Agreement, debt securities issued by the Bank and the interest thereon are not subject to any tax by a member (a) which discriminates against such debt securities solely because they are issued by the Bank, or (b) if the sole jurisdictional basis for such taxation is the place or currency in which such debt securities are issued, made payable or paid, or the location of any office or place of business maintained by the Bank.

## FUND FOR SPECIAL OPERATIONS

### General

The FSO was established under the Agreement for the purpose of making loans "on terms and conditions appropriate for dealing with special circumstances arising in specific countries or with respect to specific projects." The amortization periods for loans from the FSO have usually been longer and the interest rates lower than for loans from the Bank's Ordinary Capital. FSO resources are also used to fund technical assistance activities (see "Technical Assistance" below).

Under the Agreement, the Ordinary Capital is required at all times and in all respects to be held, used, obligated, invested and otherwise disposed of entirely separate from the FSO. Separate financial statements for the Ordinary Capital operations and the operations of the FSO are required. The Ordinary Capital resources are under no circumstances to be used to discharge losses or liabilities arising from the FSO's operations. Administrative and other expenses pertaining to the operations of the FSO are charged to the FSO (see Note B to the financial statements).

At December 31, 2004, the FSO's fund balance amounted to \$9.2 billion, mostly resulting from subscribed contribution quotas from member governments of the Bank. Outstanding FSO loans totaled \$7.0 billion, and the undisbursed portion of approved loans amounted to \$2.1 billion.

### Heavily Indebted Poor Countries (HIPC) Initiative

The Bank is participating in the HIPC Initiative, a concerted international initiative endorsed by the Group of Seven Countries (G-7), the International Bank for Reconstruction and Development (World Bank) and the International Monetary Fund, for addressing the debt problems of a group of countries identified as heavily indebted poor countries to ensure that reform efforts of these countries will not be put at risk by continued high external debt burdens. Under the HIPC Initiative, all bilateral and

multilateral creditors are providing debt relief for countries that demonstrate good policy performance over an extended period in order to bring their debt service burdens to sustainable levels.

The Bank's participation in the HIPC Initiative comprises the HIPC I of 1998 and the Enhanced HIPC Initiative approved in 2001. Eligible member countries are Bolivia, Guyana, Honduras and Nicaragua. Total debt relief is expected to amount to a net present value, calculated as of the HIPC effective date for each country, of approximately \$1.1 billion. Debt relief is being delivered from 1998 through 2019. This debt relief is being implemented through a combination of write-offs of FSO loans principal and interest, transfers from the FSO general reserve to the IFF, conversion of a substantial amount of the FSO local currency holdings to United States dollars, and grants of member countries through the World Bank HIPC Trust Fund.

Of the four HIPC eligible member countries, Bolivia, Guyana, and Nicaragua have reached their respective completion points, resulting in a partial write-off of FSO loans in the amount of \$978 million upon reaching such status.

### Technical Assistance

In addition to loans and guarantees, the Bank provides technical assistance to its member countries both in connection with, and independently of, its lending operations. Such assistance focuses on transferring knowledge, and supports project preparation, feasibility studies, regional programs and training. Technical assistance activities are mainly funded by FSO resources and funds under administration. In 2004, the Bank provided technical assistance for a total of \$118 million, including \$52 million funded by the Multilateral Investment Fund (MIF).

## INTERMEDIATE FINANCING FACILITY ACCOUNT

The resources of the IFF are used to defray a portion of the debt service due by borrowers on certain loans made from the Ordinary Capital. The IFF resources may be used to defray a maximum of up to 5% per annum of the interest rate due on such loans. In addition, under the Enhanced HIPC Initiative, the IFF subsidizes 100% of certain debt service payments (both principal and interest) on selected loans. The IFF is funded from the general reserve of the FSO and from income earned on its investments.

## FUNDS UNDER ADMINISTRATION

### General

In addition to its Ordinary Capital, the FSO and the IFF, the Bank administers on behalf of donors, such as member countries and other international organizations, funds for purposes consistent with the Bank's objectives of promoting economic and social development in its regional developing members. These funds are mainly used to cofinance Bank lending projects

and fund technical assistance activities, including project preparation and training. The funds under administration are held in trust separately from Bank assets. As of December 31, 2004, the Bank administered resources on behalf of donors amounting to approximately \$1.0 billion. During 2004, the Bank received \$1.9 million as fees for administering these funds.

#### **Multilateral Investment Fund**

The MIF is an independent fund administered by the Bank. Established in 1993 to promote private sector development, the MIF fills a specialized development role, providing technical cooperation to test new approaches to strengthen competitiveness, demonstrate possibilities to commercial markets, and advance difficult reform issues.

To date, the MIF has approved operations amounting to \$924 million, net of cancellations, for 667 projects, of which substantial amounts are technical cooperation grants. MIF operations also include loans, equity investments and guarantees.

### **INTER-AMERICAN INVESTMENT CORPORATION**

The activities of the Bank are complemented by those of the Inter-American Investment Corporation (IIC). The IIC is a separate international organization, with a separate governance structure, including a separate Board of Governors and Board of Executive Directors, whose 42 member countries are also members of the Bank. The purpose of the IIC is to promote the economic development of its regional developing member countries by encouraging the establishment, expansion and modernization of private enterprises, preferably those of small and medium-sized scale.

The funds of the IIC are completely separate from those of the Bank. At December 31, 2004, net of cancellations, the IIC had approved 264 operations, which included equity investments and loans. The aggregate amount of these operations amounted to the equivalent of \$1.3 billion, \$1.1 billion of which had been disbursed. At December 31, 2004, the aggregate amount of outstanding loans amounted to \$342 million and the aggregate amount of outstanding equity investments amounted to \$121 million.

The Bank has approved a loan to the IIC in the amount of \$300 million. Disbursements under this loan are to be made in United States dollars and carry a LIBOR-based interest rate. There were no amounts outstanding during 2004 and 2003.

## **SUBSEQUENT DEVELOPMENTS**

This section contains information on subsequent developments from January 1, 2005 to the date of this Information Statement.

#### **Development Operations—Amendments to Lending Framework**

In February 2005, the Board of Executive Directors approved management's proposal to present to the Board of Governors recommendations to amend certain limitations applicable to the lending instruments described in "Development Operations—Loans" above. The proposed amendments include:

- (i) Imposing new aggregate lending limits for investment loans financed with Ordinary Capital resources, and replacing existing lending limits for policy-based loans, with limits for all lending categories being determined by the Board of Governors for consecutive four-year periods, beginning on January 1, 2005; and
- (ii) Eliminating existing minimum disbursement periods for investment loans and policy-based loans.

#### **Sources of Funds—Recent Developments in Bank Membership**

On March 16, 2005, the Republic of Korea became a member of the Bank. Consequently, as of that date, the Bank's members include 26 borrowing member countries and 21 non-borrowing member countries.

#### **Financial Risk Management—Operational Risk**

In January 2005, the Board of Directors approved an initiative on best practices in internal controls that includes the implementation of the COSO Internal Control-Integrated Framework, and the establishment of an annual process for management to report on the effectiveness of internal controls over financial reporting, and for the external auditors' to attest on management's report. Management's first internal controls report and auditors' attestation is expected to be issued in connection with financial information as of December 31, 2006.

#### **Administration and Governance of the Bank—External Auditors**

In March 2005, management submitted a proposal, via the Board of Executive Directors, to the Board of Governors recommending the appointment of E&Y as external auditors for the year 2005.

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## REPORT OF INDEPENDENT AUDITORS

Board of Governors  
Inter-American Development Bank

We have audited the accompanying balance sheet of the Inter-American Development Bank (Bank)—Ordinary Capital as of December 31, 2004 and 2003, and the related statements of income and general reserve, comprehensive income, and cash flows for each of the three years in the period ended December 31, 2004. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Inter-American Development Bank—Ordinary Capital as of December 31, 2004 and 2003, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2004, in conformity with accounting principles generally accepted in the United States.

*Ernst + Young LLP*

Washington, D.C.  
February 15, 2005

ORDINARY CAPITAL  
INTER-AMERICAN DEVELOPMENT BANK

**BALANCE SHEET**

*Expressed in millions of United States dollars*

	December 31,			
	2004		2003	
<b>ASSETS</b>				
<b>Cash and investments</b>				
Cash .....	\$ 210		\$ 347	
Investments				
Trading .....	9,162		11,372	
Held-to-maturity .....	3,809	\$13,181	3,607	\$15,326
<b>Loans outstanding</b> .....	49,842		50,655	
Allowance for loan losses .....	(199)	49,643	(183)	50,472
<b>Accrued interest and other charges</b>				
On investments .....	84		109	
On loans .....	621		602	
On swaps, net .....	170	875	188	899
<b>Receivable from members</b>				
Capital subscriptions .....	—		2	
Non-negotiable, non-interest-bearing demand obligations .....	393		423	
Amounts required to maintain value of currency holdings .....	64	457	68	493
<b>Currency and interest rate swaps on borrowings</b> .....		2,366		1,680
<b>Other assets</b>				
Property, net .....	318		294	
Unamortized borrowing costs .....	246		243	
Miscellaneous .....	260	824	262	799
<b>Total assets</b> .....		<u>\$67,346</u>		<u>\$69,669</u>
<b>LIABILITIES AND EQUITY</b>				
<b>Liabilities</b>				
<b>Borrowings</b>				
Short-term .....	\$ 308		\$ 1,569	
Medium- and long-term .....	46,505	\$46,813	48,720	\$50,289
<b>Currency and interest rate swaps</b>				
Investments—trading .....	115		306	
Loans .....	33		47	
Borrowings .....	697	845	666	1,019
Payable for investment securities purchased .....		20		165
Amounts payable to maintain value of currency holdings .....		362		199
Accrued interest on borrowings .....		683		719
Accounts payable and accrued expenses .....		112		166
<b>Total liabilities</b> .....		48,835		52,557
<b>Equity</b>				
<b>Capital stock</b>				
Subscribed 8,368,379 shares .....	100,951		100,951	
Less callable portion .....	(96,611)		(96,611)	
Paid-in capital stock .....	4,340		4,340	
General reserve .....	10,772		9,623	
Special reserve .....	2,665		2,665	
Accumulated other comprehensive income .....	734	18,511	484	17,112
<b>Total liabilities and equity</b> .....		<u>\$67,346</u>		<u>\$69,669</u>

The accompanying notes are an integral part of these financial statements.



ORDINARY CAPITAL  
INTER-AMERICAN DEVELOPMENT BANK

# STATEMENT OF INCOME AND GENERAL RESERVE

Expressed in millions of United States dollars

	Years ended December 31,		
	2004	2003	2002
<b>Income</b>			
Loans			
Interest .....	\$ 2,446	\$ 2,602	\$2,616
Credit commissions .....	32	60	—
Supervision and inspection and other fees .....	20	49	23
	<u>2,498</u>	<u>2,711</u>	<u>2,639</u>
Investments .....	288	298	319
Other .....	11	19	27
Total income .....	<u>2,797</u>	<u>3,028</u>	<u>2,985</u>
<b>Expenses</b>			
Borrowing expenses			
Interest, after swaps .....	1,526	1,577	1,801
Amortization of borrowing costs .....	46	50	38
Debt repurchase costs .....	—	9	3
	<u>1,572</u>	<u>1,636</u>	<u>1,842</u>
Provision (credit) for loan and guarantee losses .....	21	(1,370)	100
Administrative expenses .....	342	328	316
Total expenses .....	<u>1,935</u>	<u>594</u>	<u>2,258</u>
Income before SFAS 133 and currency transaction adjustments .....	862	2,434	727
Effects of SFAS 133 and currency transaction adjustments .....	314	(1)	(19)
<b>Net income</b> .....	<u>1,176</u>	<u>2,433</u>	<u>708</u>
Allocation to the Fund for Special Operations .....	(27)	(27)	(27)
<b>Addition to general reserve for the year</b> .....	<u>1,149</u>	<u>2,406</u>	<u>681</u>
<b>General reserve, beginning of year</b> .....	<u>9,623</u>	<u>7,217</u>	<u>6,536</u>
<b>General reserve, end of year</b> .....	<u>\$10,772</u>	<u>\$ 9,623</u>	<u>\$7,217</u>

# STATEMENT OF COMPREHENSIVE INCOME

Expressed in millions of United States dollars

	Years ended December 31,		
	2004	2003	2002
<b>Net income</b> .....	<u>\$ 1,176</u>	<u>\$ 2,433</u>	<u>\$ 708</u>
<b>Other comprehensive income</b>			
Translation adjustments .....	239	449	373
Reclassification to income—cash flow hedges .....	11	—	—
Net loss on cash flow hedges under SFAS 133 .....	—	(11)	(39)
Total other comprehensive income .....	<u>250</u>	<u>438</u>	<u>334</u>
<b>Comprehensive income</b> .....	<u>\$ 1,426</u>	<u>\$ 2,871</u>	<u>\$1,042</u>

The accompanying notes are an integral part of these financial statements.

ORDINARY CAPITAL  
INTER-AMERICAN DEVELOPMENT BANK

**STATEMENT OF CASH FLOWS**

*Expressed in millions of United States dollars*

	Years ended December 31,		
	2004	2003	2002
<b>Cash flows from lending and investing activities</b>			
Lending:			
Loan disbursements (net of participations) .....	<b>\$(3,768)</b>	\$(8,416)	\$(5,522)
Loan collections (net of participations) .....	<b>5,199</b>	7,279	4,106
Net cash provided by (used in) lending activities .....	<b>1,431</b>	(1,137)	(1,416)
Net decrease (increase) in trading investments .....	<b>2,076</b>	470	(2,483)
Gross purchases of held-to-maturity investments .....	<b>(4,448)</b>	(1,291)	(3,112)
Gross proceeds from maturities of held-to-maturity investments .....	<b>4,420</b>	1,582	3,056
Purchase of property .....	<b>(34)</b>	(24)	(25)
Miscellaneous assets and liabilities .....	<b>17</b>	(5)	(21)
Net cash provided by (used in) lending and investing activities .....	<b>3,462</b>	(405)	(4,001)
<b>Cash flows from financing activities</b>			
Medium- and long-term borrowings:			
Gross proceeds .....	<b>4,519</b>	7,295	8,575
Repayments .....	<b>(7,798)</b>	(8,938)	(6,059)
Short-term borrowings:			
Gross proceeds .....	<b>6,059</b>	4,623	898
Repayments .....	<b>(7,325)</b>	(3,795)	(656)
Collections of receivables from members .....	<b>35</b>	82	84
Net cash (used in) provided by financing activities .....	<b>(4,510)</b>	(733)	2,842
<b>Cash flows from operating activities</b>			
Loan income collections .....	<b>2,426</b>	2,876	2,785
Interest and other costs of borrowings, after swaps .....	<b>(1,412)</b>	(1,568)	(1,709)
Income from investments .....	<b>273</b>	296	309
Other income .....	<b>10</b>	10	15
Administrative expenses .....	<b>(352)</b>	(320)	(326)
Net cash provided by operating activities .....	<b>945</b>	1,294	1,074
<b>Cash allocation to the Fund for Special Operations</b> .....	<b>(27)</b>	(27)	(27)
<b>Effect of exchange rate fluctuations on cash</b> .....	<b>(7)</b>	12	51
<b>Net (decrease) increase in cash</b> .....	<b>(137)</b>	141	(61)
<b>Cash, beginning of year</b> .....	<b>347</b>	206	267
<b>Cash, end of year</b> .....	<b>\$ 210</b>	\$ 347	\$ 206

The accompanying notes are an integral part of these financial statements.

ORDINARY CAPITAL  
INTER-AMERICAN DEVELOPMENT BANK

## NOTES TO FINANCIAL STATEMENTS

### Note A – Origin

The Inter-American Development Bank (Bank) is an international organization which was established in December 1959. Its purpose is to promote the economic and social development of Latin America and the Caribbean, primarily by providing loans and related technical assistance for specific projects and for programs of economic reform. The primary activities of the Bank are conducted through the Ordinary Capital, which is supplemented by the Fund for Special Operations (FSO) and the Intermediate Financing Facility Account (IFF). The FSO was established to make loans on highly concessional terms in the less developed member countries of the Bank. The IFF's purpose is to subsidize part of the interest payments for which certain borrowers are liable on loans from the Ordinary Capital.

### Note B – Summary of Significant Accounting Policies

The financial statements are prepared in conformity with United States generally accepted accounting principles. The preparation of such financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

### New accounting pronouncements

In May 2004, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) 106-2 "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003" which supersedes FSP 106-1. This FSP provides guidance on the accounting for the effects of the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act) for employers that sponsor postretirement health care plans that provide prescription drug benefits, and requires those employers to provide certain disclosures regarding the effect of the federal subsidy provided by the Act. Management has determined that the provisions of the Act do not affect the Bank's Postretirement Benefit Plan.

### Translation of currencies

The financial statements are expressed in United States dollars; however, the Bank conducts its operations in the currencies of all of its members, which are considered functional currencies, to the extent that they are used in those currencies' operations. The Ordinary Capital resources are derived from capital stock, borrowings and accumulated earnings in those various currencies. Assets and liabilities in functional currencies are translated into United States dollars at market exchange rates prevailing at

the Balance Sheet dates. Exchange rate fluctuations do not have any effect on the United States dollar equivalent of currencies from paid-in capital stock because of the maintenance of value provisions described below. Net adjustments resulting from the translation of functional currencies derived from borrowings are charged or credited to Translation adjustments<sup>1</sup>, and are presented as a separate component of Other comprehensive income in the Statement of Comprehensive Income. Borrowings in non-functional currencies are translated with the gain or loss recorded in Effects of SFAS 133 and currency transaction adjustments on the Statement of Income and General Reserve. Income and expenses are translated at market exchange rates prevailing during each month.

### Valuation of capital stock

The Agreement Establishing the Inter-American Development Bank (Agreement) provides that capital stock be expressed in terms of the United States dollar of the weight and fineness in effect on January 1, 1959. The Second Amendment to the Articles of Agreement of the International Monetary Fund eliminated par values of currencies in terms of gold effective April 1, 1978. Consequently, the General Counsel of the Bank rendered an opinion that the Special Drawing Right (SDR) became the successor to the 1959 United States dollar as the standard of value for the Bank's capital stock, and for maintaining the value of its currency holdings. The SDR has a value equal to the sum of the values of specific amounts of stated currencies, including the United States dollar. Pending a decision by the Bank's governing boards and as suggested in the General Counsel's opinion, the Bank is continuing its practice of using as the basis of valuation the 1959 United States dollar, as valued in terms of United States dollars at July 1, 1974, whose value is equal to approximately 1.2063 of the then current United States dollars.

### Maintenance of value (MOV)

In accordance with the Agreement, each member is required to maintain the value of its currency held in the Ordinary Capital, except for currency derived from borrowings. Likewise, the Bank is required to return to a member an amount of its currency equal to any significant increase in value of such member's currency so held, except for currency derived from borrowings. The standard of value for these purposes is the United States dollar of the weight and fineness in effect on January 1, 1959.

<sup>1</sup>References to captions in the financial statements are identified by the name of the caption beginning with a capital letter every time they appear in the notes to the financial statements.

ORDINARY CAPITAL  
INTER-AMERICAN DEVELOPMENT BANK

**NOTES TO FINANCIAL STATEMENTS** (continued)

The amount related to MOV on non-borrowing member countries currency holdings is presented as an asset or liability on the Balance Sheet, included in Amounts required/payable to maintain value of currency holdings.

**General and special reserves**

In accordance with resolutions of the Board of Governors, net income is generally added to the general reserve to provide for possible annual excess of expenses over income.

The special reserve consists of loan commissions set aside from the Bank's inception to 1998 pursuant to the Agreement, which are held in investments. These investments may be used only for the purpose of meeting liabilities on borrowings and guarantees in the event of defaults on loans made, participated in, or guaranteed with resources of the Ordinary Capital.

**Investments**

Investment securities are classified based on management's intention on the date of purchase, and are recorded using trade-date accounting. Securities which management has the intent and ability to hold until maturity are included in the held-to-maturity portfolio and reported at amortized cost. All other securities are held in a trading portfolio. Securities and related derivative instruments (mostly currency and interest rate swaps) held in the trading portfolio are carried and reported at fair value, with changes in fair value included in Income from investments on the Statement of Income and General Reserve.

**Loans**

The Bank makes loans to its developing member countries, agencies or political subdivisions of such members and to private enterprises carrying out projects in their territories. In the case of loans to borrowers other than national governments, central banks or other governmental or inter-governmental entities, the Bank follows the general policy of requiring a guarantee engaging the full faith and credit of the government. Up to 10% of the outstanding loans and guarantees, not including emergency lending, may be made directly to private sector entities without a sovereign guarantee on the basis of market based pricing (Private Sector Program). These financings are subject to a number of restrictions, including a ceiling on financing of the lesser of 25% (for certain countries, 40%) of the total costs of an individual project or \$75 million. There is also a ceiling on partial risk guarantees of the lesser of 50% of the total costs of an individual project or \$150 million.

Loans representing approximately 42% of the outstanding balances have repayment obligations in various currencies determined on the basis of a currency pooling system (CPS).

The principal amount of CPS loans is repayable, in aggregate, in the currencies lent. Single currency loans are repayable in the specific currencies disbursed.

Incremental direct costs associated with originating loans are expensed as incurred as such amounts are considered immaterial to the financial results. Front-end fees on emergency loans are deferred and amortized over the first four years of the loan on a straight-line basis, which approximates the effective interest method.

It is the policy of the Bank to place on nonaccrual status all loans made to, or guaranteed by, a member of the Bank if principal, interest or other charges with respect to any such loan are overdue by more than 180 days. In addition, if loans made to a member country with resources of the FSO or of any other fund owned or administered by the Bank are placed on nonaccrual status, all Ordinary Capital loans made to, or guaranteed by, that member government will also be placed on nonaccrual status. On the date a member's loans are placed on nonaccrual status, unpaid interest and other charges accrued on loans outstanding to the member are deducted from the income of the current period. Interest and other charges on nonaccruing loans are included in income only to the extent that payments have actually been received by the Bank. On the date a member pays in full all overdue amounts, the member's loans emerge from nonaccrual status, its eligibility for new loans is restored and all overdue charges (including those from prior years) are recognized as income from loans in the current period.

For Private Sector Program loans, it is the policy of the Bank to place on nonaccrual status loans made to a borrower when interest or other charges are past due by more than 90 days, or earlier when management has doubts about the future collectibility of principal or interest. Income is recorded thereafter on a cash-basis method, or a combination of cash-basis and cost-recovery methods, until loan service is current and management's doubts about future collectibility cease to exist. If the collectibility risk is considered to be particularly high at the time of arrears clearance, the borrower's loans will not automatically emerge from nonaccrual status.

The Bank does not reschedule sovereign-guaranteed loans and has not written off any such Ordinary Capital loans. The Bank reviews the collectibility of loans and guarantees on a continuous basis, and records, as an expense, provisions for loan and guarantee losses in accordance with its determination of the collectibility risk of the total loan and guarantees portfolio. Such reviews consider the probabilities of default associated with the external credit ratings of each individual borrower, adjusted to reflect the probability of default to the Bank, as well as the potential for loss arising from delay in the scheduled loan repayments.

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**NOTES TO FINANCIAL STATEMENTS** (continued)

The Bank considers a Private Sector Program loan as impaired when, based on current information and events, it is probable that the Bank will be unable to collect all amounts due according to the loan's original contractual terms. Specific allowance for losses on impaired loans are set aside based on management's judgment of the present value of expected future cash flows discounted at the loan's effective interest rate or based on the fair value of the collateral. Income on impaired loans is generally recognized following a combination of cash-basis and cost-recovery methods.

**Guarantees**

The Bank may make partial guarantees without a sovereign counter-guarantee under the 10% limit for the Private Sector Program operations mentioned above or for public sector operations with a member sovereign counter-guarantee. To date, the Bank has issued, under its Private Sector Program, partial guarantees designed to encourage private sector investments and local capital market development. The partial risk guarantees and partial credit guarantees are provided mostly for infrastructure projects and may be offered on a stand-alone basis or in conjunction with a loan. Partial risk guarantees cover specific risk events related to non-commercial factors such as currency convertibility, transferability of currencies outside the host country, and government non-performance. Partial credit guarantees cover payment risks for selected project borrowings or debt issuances. The terms of all guarantees are specifically set in each guarantee agreement and are primarily tied to a project or the terms of debt issuances. On a case-by-case basis, depending upon the risks covered and the nature of each individual project, the Bank may reinsure certain guarantees to reduce its exposure. Guarantee fees, net of reinsurance premiums, are charged and recognized as income over the term of the guarantee.

Guarantees are regarded as outstanding when the borrower incurs the underlying financial obligation and are called when a guaranteed party demands payment under the guarantee. The outstanding amount represents the maximum potential risk if the payments guaranteed for these entities are not made. Guarantee exposure is measured as the future guaranteed cash flows, net of reinsurance, when applicable, discounted to the current period.

**Receivable from members**

Receivable from members includes non-negotiable, non-interest-bearing demand obligations that have been accepted in lieu of the immediate payment of all or any part of a member's subscribed paid-in capital stock and MOV obligations.

**Property**

Property is recorded at cost. Major improvements are capitalized while routine replacements, maintenance and repairs are charged to expense. Depreciation is computed on the straight-line method over estimated useful lives (30 to 40 years for buildings, 10 years for building improvements and capitalized software, and 5 to 15 years for equipment).

**Borrowings**

To ensure funds are available for its lending and liquidity operations, the Bank borrows in the international capital markets, offering its debt securities to private and public investors. The Bank issues debt securities denominated in various currencies and with various maturities, formats, and structures. The Bank also issues short-term discount notes for liquidity management purposes. Borrowings are carried on the Balance Sheet at their par value (face value), adjusted for changes in fair value attributable to the hedged risk (when part of a hedging relationship and designated as a hedge under SFAS 133 (basis adjustment)) and for any unamortized premiums or discounts. Adjustments to the basis of hedged borrowings, if any, are recorded in Effects of SFAS 133 and currency transaction adjustments on the Statement of Income and General Reserve. The Bank starts amortizing basis adjustments when the related hedge is terminated. The amortization of basis adjustments and premiums or discounts is calculated following a methodology that approximates the effective interest method, and is included in Effects of SFAS 133 and currency transaction adjustments and in Interest under Borrowing expenses, respectively, on the Statement of Income and General Reserve. Borrowing costs associated with a bond offering are deferred and amortized on a straight-line basis (which approximates the effective interest method) over the life of the respective debt security. The unamortized balance of the borrowing costs is presented separately under Other assets on the Balance Sheet, and the amortization is presented as a separate element under Borrowing expenses on the Statement of Income and General Reserve.

**Derivatives**

As part of its asset and liability management, the Bank uses derivatives, mostly currency and interest rate swaps, in its investment, loan and borrowing operations. These derivatives modify the interest rate and/or currency characteristics of the respective operation to produce the desired interest and/or currency type.

The Bank complies with the derivative accounting requirements of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" as amended (hereinafter referred to as SFAS 133). Following SFAS 133, all derivatives are recognized in the Balance Sheet at their fair value and are classified as either assets or liabilities, depending on the nature

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(debit or credit) of their net fair value amount. Up to December 31, 2003, the Bank designated derivatives as hedges of the fair value of recognized assets or liabilities or of unrecognized firm commitments (fair value hedges), hedges of the variability of cash flows to be received or paid on recognized assets or liabilities (cash flow hedges), or as held in the trading portfolio (investment derivatives). Changes in the fair value of derivatives that were highly effective, and that were designated and qualified as fair value hedges, along with the gain or loss on the hedged asset or liability attributable to the hedged risk (including gains or losses on firm commitments) were recorded in Effects of SFAS 133 and currency transaction adjustments on the Statement of Income and General Reserve. The effective portion of the changes in fair value of derivatives that were highly effective and that were designated and qualified as cash flow hedges were recorded in Other comprehensive income, until earnings were affected by the variability of cash flows. The ineffective portion was recorded in Effects of SFAS 133 and currency transaction adjustments. Changes in the fair value of investment derivatives are recorded in Income from investments. The interest component of derivatives is recorded, over the life of the derivative contract, as an adjustment to investment income, loan income, or borrowing expense, as applicable, on the Statement of Income and General Reserve.

Effective January 1, 2004, the Bank discontinued hedge accounting for all its SFAS 133 hedging relationships (see Note H). While the Bank continues to measure all derivatives at fair value, changes in fair value of borrowing and lending derivatives are now recognized in Effects of SFAS 133 and currency transaction adjustments without an offset for gains or losses on hedged assets or liabilities.

The Bank occasionally issues debt securities that contain an embedded derivative. The Bank assesses whether the economic characteristics of the embedded derivative are clearly and closely related to the economic characteristics of the debt security, that is, the host contract, excluding the embedded derivative features. If the embedded derivative possesses economic characteristics that are not clearly and closely related to the economic characteristics of the host contract, not already marked to market through earnings, and would separately meet the definition of a derivative, then the embedded derivative is separated from the host contract and carried at fair value.

**Administrative expenses**

Substantially all administrative expenses of the Bank, including depreciation, are allocated between the Ordinary Capital and the FSO, pursuant to an allocation method approved by the Board of Executive Directors. Following this allocation method, during 2004, the effective ratio of administrative expenses

charged to the Ordinary Capital was 84.4% and 15.6% to the FSO (2003—84.6% and 15.4%; 2002—83.6% and 16.4%).

**Taxes**

The Bank, its property, other assets, income and the operations and transactions it carries out pursuant to the Agreement are immune from all taxation and from all customs duties in its member countries.

**Note C – Restricted Currencies**

At December 31, 2004, Cash includes \$143 million (2003—\$125 million) in currencies of regional borrowing members. These amounts may be used by the Bank in Ordinary Capital lending operations and for administrative expenses. The amount of \$24 million (2003—\$23 million) has been restricted by one member, in accordance with the provisions of the Agreement, to be used for making payments for goods and services produced in its territory.

**Note D – Investments**

As part of its overall portfolio management strategy, the Bank invests in government, agency, corporate and bank obligations, including time deposits, asset- and mortgage-backed securities, and related financial derivative instruments, primarily currency and interest rate swaps.

For government and agency obligations, including securities issued by an instrumentality of a government or any other official entity, the Bank's policy is to invest only in obligations issued or unconditionally guaranteed by governments of certain countries with a minimum credit quality equivalent to a AA-rating (asset- and mortgage-backed securities require a credit quality equivalent to a AAA rating); however, if such obligations are issued in the currency of a member country, no credit rating is required. Obligations issued by multilateral organizations require a credit quality equivalent to a AAA rating. In addition, the Bank invests in bank obligations issued or guaranteed by an entity with senior debt securities rating of at least A+, and in corporate and asset- and mortgage-backed securities with credit quality equivalent to a AAA rating. The Bank also invests in short-term asset-backed securities and short-term asset-backed commercial paper carrying only the highest short-term credit ratings.

A summary of the trading portfolio instruments at December 31, 2004 and 2003 is shown in the Summary Statement of Trading Investments and Swaps in Appendix I-1. In addition, a summary of the held-to-maturity portfolio and the portfolio's maturity structure at December 31, 2004 and 2003 are shown in the Summary Statement of Held-to-Maturity Investments in Appendix I-2.

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Net unrealized gains (losses) on trading portfolio instruments, held at December 31, 2004, of \$(1) million (2003—\$5 million; 2002—\$(3) million) were included in Income from investments.

**Note E – Loans and Guarantees Outstanding**

Approved loans are disbursed to borrowers in accordance with the requirements of the project being financed; however, disbursements do not begin until the borrower and guarantor, if any, take certain actions and furnish certain documents to the Bank. Of the undisbursed loan balances, the Bank has entered into irrevocable commitments to disburse approximately \$17 million at December 31, 2004.

The loan portfolio includes single currency pool loans (Single Currency Facility (SCF) and U.S. Dollar Window Program) and multicurrency pool loans (CPS loans) with sovereign guarantee, and single currency loans with sovereign guarantee (Emergency Lending Facility) and without sovereign guarantee (Private Sector Program loans).

SCF loans are denominated in one of four currencies: United States dollars, euro, Japanese yen and Swiss francs, or in a combination of such currencies, at the option of the borrower. The interest rate on SCF loans for which a LIBOR-based pricing alternative is not selected resets semi-annually, based on the effective cost during the previous six months of each of the single-currency pools of borrowings allocated to fund such loans, plus the Bank's spread. The interest rate on LIBOR-based SCF loans resets quarterly, based on the currency-specific three-month LIBOR plus a pool-based margin reflecting the Bank's sub-LIBOR funding cost and the risk mitigation cost, and the Bank's spread.

The Bank maintains a targeted currency composition in its CPS of 50% United States dollars, 25% Japanese yen and 25% European currencies. The interest rate on CPS loans made from January 1, 1983 to December 31, 1989 is fixed. The interest rate on CPS loans made after that date is adjusted twice a year based on the effective cost during the previous six months of a pool of borrowings allocated to fund such loans, plus the Bank's spread. Since September 2003, CPS loans are no longer available to borrowers.

Under the Emergency Lending Facility, funding is provided to address financial emergencies in the region for a revolving aggregate amount of up to \$6 billion. Loans are denominated in United States dollars, have a term not to exceed five years, and principal repayments begin after three years. These loans carry a six-month LIBOR interest rate plus a spread of 400 basis points.

Private Sector Program loans are denominated in United States dollars and borrowers have the option of either a LIBOR-based fixed or floating-rate loan. The interest rate on fixed-rate

loans is based on a LIBOR funding cost plus a credit spread. For floating-rate loans, the interest rate resets every one, three or six months based on a LIBOR rate plus a credit spread. The credit spreads and fees on these loans are set on a case-by-case basis.

A summary statement of loans outstanding by country is presented in Appendix I-3 and a summary of the outstanding loans by currency and product type and their maturity structure at December 31, 2004 and 2003 is shown in Appendix I-4.

**Inter-American Investment Corporation (IIC)**

The Bank has approved a loan to the IIC (a separate international organization whose 42 member countries are also members of the Bank) in the amount of \$300 million. Disbursements under this loan are to be made in United States dollars and carry a LIBOR-based interest rate. There were no amounts outstanding as of December 31, 2004 and 2003.

**Loan participations and guarantees**

Under the loan contracts with its borrowers, the Bank has the right to sell loan participations to commercial banks or other financial institutions, while reserving to itself the administration of the loans. As of December 31, 2004, there were \$1,947 million (2003—\$2,098 million) in outstanding participations in Private Sector Program loans not included in the Balance Sheet.

As of December 31, 2004, the Bank had approved, net of cancellations and expirations, guarantees without sovereign counter-guarantees in the amount of \$745 million (2003—\$596 million) of which \$331 million (2003—\$342 million) was outstanding and subject to call. Outstanding guarantees have a remaining maturity ranging from 1 to 20 years. As of December 31, 2004, no guarantees provided by the Bank have been called.

During 2004, the Bank approved a Trade Finance Facilitation Program for up to \$400 million in partial credit guarantees to local banks on short-term trade-related transactions. As of December 31, 2004, no guarantees had been issued under this program.

**IFF subsidy**

The IFF was established in 1983 by the Board of Governors of the Bank for the purpose of subsidizing part of the interest payments for which certain borrowers are liable on loans from the resources of the Ordinary Capital. In addition, under the Enhanced Heavily Indebted Poor Countries (HIPC) Initiative, which is a concerted international initiative for addressing the debt problems of a group of countries identified as heavily indebted poor countries in which the Bank participates, the IFF subsidizes 100% of certain principal and interest payments on

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Ordinary Capital loans. During 2004, the IFF paid \$50 million (2003—\$63 million; 2002—\$69 million) of interest and \$8 million (2003—\$10 million; 2002—\$10 million) of principal on behalf of the borrowers. The IFF is funded primarily from the general reserve of the FSO.

**Nonaccrual and impaired loans and allowance for loan losses**

At December 31, 2004, all loans were performing except for certain Private Sector Program loans, which were classified as impaired and were in nonaccrual status. The recorded investment in impaired loans at December 31, 2004 was \$216 million (2003—\$237 million). The average recorded investment in impaired loans during 2004 was \$246 million (2003—\$302 million). During 2004, income recognized on loans while impaired was \$12 million (2003—\$5 million; 2002—\$7 million). Income that would have been recognized on a cash basis for the period of impairment was \$23 million in 2004 (2003—\$11 million; 2002—\$14 million). All impaired loans have specific allowances for loan losses amounting to \$83 million at December 31, 2004 (2003—\$70 million).

The changes in the allowance for loan losses for the years ended December 31, 2004 and 2003 were as follows (in millions):

	2004	2003
Beginning balance .....	\$183	\$ 1,561
Provision (credit) for loan losses .....	21	(1,370)
Write-offs—Private Sector Program .....	(5)	(61)
Translation adjustments .....	—	53
Ending balance .....	<u>\$199</u>	<u>\$ 183</u>

As a result of changes in management's assessment of the risk of loan and guarantees losses, the allowance for loan losses at December 31, 2003 was reduced by \$1,370 million. This amount was credited to the Provision (credit) for loan and guarantee losses.

**Note F – Property**

As of December 31, 2004 and 2003, Property, net consists of the following (in millions):

	2004	2003
Land, buildings, improvements, capitalized software and equipment, at cost .....	\$ 544	\$ 510
Less: accumulated depreciation .....	(226)	(216)
	<u>\$ 318</u>	<u>\$ 294</u>

**Note G – Borrowings**

The objective of the Bank's borrowing policy is to secure long term capital market access, volume, and cost effectiveness. Medium- and long-term borrowings at December 31, 2004 consist of loans, notes and bonds issued in various currencies at contracted interest rates ranging from 0.00% to 14.00%, before swaps, and from (0.53%) (equivalent to JPY-LIBOR less 58 basis points) to 12.25%, after swaps, with various maturity dates through 2027. A summary of the medium- and long-term borrowing portfolio and its maturity structure at December 31, 2004 and 2003 is shown in Appendix I-5.

The Bank has short-term borrowing facilities that consist of a discount notes program and uncommitted borrowing lines from various commercial banks. Discount notes are issued in amounts not less than \$100,000, with maturities of up to 360 days.

Borrowing expenses have been reduced by the income from swap transactions amounting to \$869 million during 2004 (2003—\$1,003 million; 2002—\$805 million).

**Note H – Derivatives and Hedging Activities**

**Risk management strategy and use of derivatives**

The Bank's financial risk management strategy is designed to strengthen the Bank's ability to fulfill its purpose. This strategy consists primarily of designing, implementing, updating, and monitoring its interrelated set of financial policies and guidelines, and utilizing appropriate financial instruments and organizational structures. Financial derivative instruments are an important component of the set of financial instruments used by the Bank to enhance its financial efficiency while achieving its risk management objectives. Financial derivative instruments, mostly currency and interest rate swaps, are used primarily for hedging purposes as part of the Bank's asset and liability management. Consequently, through December 31, 2003, whenever the Bank entered into a derivative contract, it identified the specific hedged relationship and designated, documented and evaluated the hedge transaction in accordance with SFAS 133.

The majority of the current borrowing operations include swaps to hedge a specific underlying liability, producing the funding required (i.e., the appropriate currency and rate type). The Bank also uses interest rate swaps to hedge private sector fixed-rate loans and investment swaps that hedge a particular underlying investment security and produce the appropriate vehicle in which to invest existing cash. In addition, the Bank enters into interest rate caps to protect against sudden interest rate increases on floating rate borrowings funding its LIBOR-based SCF loans. Investment swaps are held in the trading portfolio, carried and reported at fair value. Up to December 31, 2003, the Bank followed hedge accounting under SFAS



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133 for all currency and interest rate swaps, except for a small number of basis swaps and the investment swaps.

**Discontinuation of hedge accounting**

Effective January 1, 2004, the Bank discontinued the use of hedge accounting and de-designated all hedging relationships established under SFAS 133. Upon discontinuance of hedge accounting, derivatives designated in fair value hedges continued to be carried on the Balance Sheet at fair value. Assets or liabilities previously designated as hedged items in fair value hedges are no longer adjusted for changes in fair value, and the related basis adjustment is amortized over the remaining life of the respective asset or liability. Similarly, derivatives designated in cash flow hedges continued to be carried on the Balance Sheet at fair value, and gains and losses that were accumulated in Other comprehensive income are reclassified to earnings in the period in which the hedged transaction affects earnings.

**Hedge Accounting**

Up to December 31, 2003, the Bank formally documented all relationships between hedging instruments and hedged items, as well as its risk-management objective and strategy for undertaking various hedge transactions. This process included linking all derivatives that were designated as fair value or cash flow hedges to specific assets and liabilities on the Balance Sheet or to specific firm commitments. The Bank formally assessed, both at the hedge's inception and on an ongoing basis, whether the derivatives that were used in hedging transactions were highly effective in offsetting changes in fair values or cash flows of hedged items and whether they were expected to continue to be highly effective in the future.

Hedge accounting was followed, as described below:

**Fair value hedges**

To hedge the change in fair value of fixed-rate debt resulting from changes in the benchmark interest rates and exchange rates, while obtaining the currencies and interest rate types required, the Bank enters into currency and/or interest rate swap agreements. In aligning its private sector loans with the funding obtained for such loans, the Bank also enters into interest rate swap agreements to hedge the changes in fair value of fixed-rate loans and loan commitments resulting from changes in the benchmark interest rate. During 2003, the Bank recognized a net loss of \$7 million (2002—\$10 million) (included in Effects of SFAS 133 and currency transaction adjustments), which represented the ineffective portion of all its fair value accounting hedges.

**Cash flow hedges**

The Bank enters into currency swap agreements to convert debt into the currencies required while hedging foreign currency fixed-rate medium- and long-term debt against the variability of cash flows resulting from changes in exchange rates. The ineffectiveness of cash flow hedges for the years ended December 31, 2003, and 2002 was not significant. The estimated amount, included in Accumulated other comprehensive income as of December 31, 2004, expected to be reclassified into earnings within the next 12 months to offset the variability of cash flows during this period is not significant.

**Effects of SFAS 133 and currency transaction adjustments**

Effects of SFAS 133 and currency transaction adjustments on the Statement of Income and General Reserve for the year ended December 31, 2004 comprise the following (in millions):

Change in fair value of derivative instruments:	
Currency transaction gains on borrowing swaps .....	\$ (630)
Change due to interest rate movements .....	(48)
Total change in fair value of derivatives .....	(678)
Currency transaction losses on borrowings .....	603
Amortization of borrowing basis adjustments .....	(250)
Reclassification to income—cash flow hedges .....	11
Total .....	<u>\$ (314)</u>

The Bank's borrowings in non-functional currencies are fully swapped to functional currencies, thus protecting the Bank against fluctuations in exchange rates. Currency transaction gains on borrowing swaps amounting to \$630 million in 2004 offset currency transaction losses on borrowings of \$603 million.

**Note I – Commercial Credit Risk**

Commercial credit risk is the potential loss that could result from either the default or the downgrade by a credit rating agency of one of the Bank's investment, trading or swap counterparties. The main sources of commercial credit risk are the financial instruments in which the Bank invests its liquidity. The primary objective in the management of the liquid assets is the maintenance of a conservative exposure to market, credit and liquidity risks. Consequently, the Bank invests only in high quality debt instruments issued by sovereigns, agencies, banks and corporate entities. In addition, the Bank limits its capital market activities to authorized counterparties, issuers and dealers selected on the basis of conservative risk management policies, and establishes exposure and term limits for those counterparties, issuers and dealers based on their size and creditworthiness.

As part of its regular investment, funding and asset and liability management activities, the Bank uses derivative instruments, mostly currency and interest rate swaps, primarily for

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hedging purposes. The Bank has established exposure limits for each swap counterparty and has entered into master swap agreements that contain enforceable close-out netting provisions. These agreements also provide for collateralization in the event that the mark-to-market exposure exceeds certain contractual limits. The Bank does not expect nonperformance by any of its counterparties. As of December 31, 2004, the Bank had received collateral of \$1,015 million (2003—\$415 million) as required under its master swap agreements.

The derivative credit exposures shown below represent the maximum potential loss, based on the gross fair value of the financial instruments without consideration of close-out netting provisions on master swap agreements, the Bank would incur if the parties to the derivative financial instruments failed completely to perform according to the terms of the contracts and the collateral or other security, if any, for the amount due proved to be of no value. As of December 31, 2004 and 2003, such credit exposures, prior to consideration of any master swap agreements or posted collateral, were as follows (in millions):

	2004	2003
Investments – Trading Portfolio		
Interest rate swaps .....	\$ 2	\$ 1
Borrowing Portfolio		
Currency swaps .....	2,094	1,316
Interest rate swaps .....	419	558

**Note J – Capital Stock and Voting Power**

**Capital stock**

Capital stock consists of “paid-in” and “callable” shares. The subscribed “paid-in” capital stock has been paid in gold and/or United States dollars and in the currency of the respective member, which in some cases has been made freely convertible, in accordance with the terms for the respective increase in capital. Non-negotiable, non-interest-bearing demand obligations have been accepted in lieu of the immediate payment of all or any part of the member’s subscribed “paid-in” capital stock. The subscribed “callable” portion of capital may only be called when required to meet obligations of the Bank created by borrowings of funds for inclusion in the Ordinary Capital resources or guarantees chargeable to such resources and is payable at the option of the member either in gold, in United States dollars, in the currency of the member country, or in the currency required to discharge the obligations of the Bank for the purpose for which the call is made. For a Statement of Subscriptions to Capital Stock at December 31, 2004 and 2003, see Appendix I-6.

The composition of the net receivable from members as of December 31, 2004 and 2003 is as follows (in millions):

	2004	2003
Regional developing members .....	\$ 444	\$ 459
United States .....	—	5
Canada .....	(66)	(12)
Non-regional members .....	(283)	(158)
Total .....	<u>\$ 95</u>	<u>\$ 294</u>

These amounts are represented on the Balance Sheet as follows (in millions):

	2004	2003
Receivable from members .....	\$ 457	\$ 493
Amounts payable to maintain value of currency holdings .....	(362)	(199)
Total .....	<u>\$ 95</u>	<u>\$ 294</u>

**Voting power**

Under the Agreement, each member country shall have 135 votes plus one vote for each share of the Bank held by that country. The Agreement, as amended by the Eighth General Increase in the Resources of the Inter-American Development Bank, also provides that no increase in the capital stock subscription of any member shall have the effect of reducing the voting power of the regional developing members below 50.005%, of the United States below 30%, and of Canada below 4% of the total voting power, leaving the voting power available for nonregional members at up to 15.995%, including approximately 5% for Japan.

Total capital stock subscriptions and the voting power of the member countries as of December 31, 2004 are shown in the Statement of Subscriptions to Capital Stock and Voting Power in Appendix I-7.

**Recent Developments in Bank Membership**

On November 17, 2004, the Board of Governors approved the admission of the Republic of Korea to membership in the Bank. The membership terms provide for subscription to eight shares of paid-in capital and 176 shares of callable capital. These shares represent a portion of the shares acquired by the Bank from the settlement of accounts with Bosnia, which declined membership accession to the shares of the former Socialist Federal Republic of Yugoslavia. The Republic of Korea must undertake certain future actions for the membership in the Bank to become effective.

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**NOTES TO FINANCIAL STATEMENTS** (continued)

**Note K – Allocation of Net Income**

The agreement for the Eighth General Increase in the Resources of the Inter-American Development Bank provides for up to \$136 million of unallocated special contributions to the FSO to be paid by contributions from members. As stated in the agreement, any unpaid portion was to be paid by periodic transfers from the net income of the Ordinary Capital, consistent with prudent financial management, between January 1, 2000 and December 31, 2004. As of December 31, 2004, no such contributions had been paid by members. Accordingly, the Bank transferred \$27.2 million, representing one fifth of the unallocated special contributions, from the net income of the Ordinary Capital to the FSO in each of the years 2000 through 2004. The 2004 transfer completes the \$136 million of unallocated special contributions to the FSO.

**Note L – Accumulated Other Comprehensive Income**

Other comprehensive income comprises the effects of SFAS 133 and currency translation adjustments. These items are presented on the Statement of Comprehensive Income.

The following is a summary of changes in Accumulated other comprehensive income for the years ended December 31, 2004 and 2003 (in millions):

	Translation Adjustments		SFAS 133 Adjustments	Total
	General Reserve	Special Reserve		
Balance at January 1, 2003 .....	\$308	\$(247)	\$ (15)	\$ 46
Translation adjustments .....	365	84	—	449
Net loss on cash flow hedges ..	—	—	(11)	(11)
Balance at December 31, 2003 ..	673	(163)	(26)	484
Translation adjustments .....	206	33	—	239
Reclassification to income— cash flow hedges .....	—	—	11	11
Balance at December 31, 2004 ..	<u>\$879</u>	<u>\$(130)</u>	<u>\$ (15)</u>	<u>\$734</u>

**Note M – Pension and Postretirement Benefit Plans**

The Bank has two defined benefit retirement plans (Plans), the Staff Retirement Plan (SRP) for the pension benefit of its international employees and the employees of the IIC, and the Local Retirement Plan (LRP) for the pension benefit of local employees in the country offices. The Plans are funded by employee and Bank contributions in accordance with the provisions of the Plans. Any and all Bank contributions to the Plans are irrevocable and are held separately in retirement funds solely for the payment of benefits under the Plans.

The Bank also provides certain health care and other benefits to retirees. All current staff of the Bank and the IIC who contribute to the SRP and LRP while in active service and who meet certain requirements are eligible for postretirement bene-

fits under the Postretirement Benefits Plan (PRBP). Retirees contribute toward the Bank's health care program based on an established premium schedule. The Bank contributes the remainder of the actuarially determined cost of future health and other benefits. While all contributions and all other assets and income of the PRBP remain the property of the Bank, they are held and administered separately and apart from the other property and assets of the Bank solely for the purpose of payment of benefits under the PRBP and are not included on the Balance Sheet.

**Obligations and funded status**

The Bank uses a December 31 measurement date for the Plans and the PRBP. The following table summarizes the change in benefit obligation, change in plan assets, and funded status of the Plans and the PRBP, and the amounts recognized on the Balance Sheet for the years ended December 31, 2004, 2003 and 2002 (in millions):

	Pension Benefits			Postretirement Benefits		
	2004	2003	2002	2004	2003	2002
<b>Change in benefit obligation</b>						
Benefit obligation,						
beginning of year .....	\$1,696	\$1,595	\$1,567	\$ 703	\$645	\$624
Service cost .....	48	45	47	22	20	19
Interest cost .....	97	98	80	39	40	33
Plan participants'						
contributions .....	19	18	17	—	—	—
Actuarial (gain) loss .....	10	(15)	(68)	(18)	—	(19)
Plan amendment .....	7	7	—	1	11	—
Benefits paid .....	(56)	(52)	(48)	(14)	(13)	(12)
Benefit obligation,						
end of year .....	<u>1,821</u>	<u>1,696</u>	<u>1,595</u>	<u>733</u>	<u>703</u>	<u>645</u>
<b>Change in plan assets</b>						
Fair value of plan assets,						
beginning of year .....	2,045	1,680	1,843	811	663	755
Actual return on plan assets ..	257	378	(150)	95	161	(80)
Employer contribution .....	29	19	18	7	—	—
Plan participants'						
contributions .....	19	18	17	—	—	—
Benefits paid .....	(56)	(52)	(48)	(14)	(13)	(12)
Net payments from						
other plans .....	—	2	—	—	—	—
Fair value of plan assets,						
end of year .....	<u>2,294</u>	<u>2,045</u>	<u>1,680</u>	<u>899</u>	<u>811</u>	<u>663</u>
Funded status .....	473	349	85	166	108	18
Unrecognized:						
Net actuarial (gain) loss ..	(350)	(232)	25	(118)	(61)	32
Prior service cost .....	15	9	6	10	10	(3)
Net amount recognized .....	<u>\$ 138</u>	<u>\$ 126</u>	<u>\$ 116</u>	<u>\$ 58</u>	<u>\$ 57</u>	<u>\$ 47</u>
Amounts recognized on the						
Balance Sheet consist of:						
Prepaid benefit cost .....	<u>\$ 138</u>	<u>\$ 126</u>	<u>\$ 116</u>	<u>\$ 58</u>	<u>\$ 57</u>	<u>\$ 47</u>

The accumulated benefit obligation for the Plans was \$1,586 million and \$1,456 million at December 31, 2004 and 2003, respectively.

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**NOTES TO FINANCIAL STATEMENTS** (continued)

**Components of net periodic benefit cost**

Net periodic benefit cost (income) for the years ended December 31, 2004, 2003 and 2002 consists of the following components (in millions):

	Pension Benefits			Postretirement Benefits		
	2004	2003	2002	2004	2003	2002
Service cost .....	\$ 48	\$ 45	\$ 47	\$ 22	\$ 20	\$ 19
Interest cost .....	97	98	80	39	40	33
Expected return on plan assets .....	(129)	(134)	(113)	(53)	(61)	(54)
Amortization of:						
Prior service cost .....	1	1	1	—	(2)	(2)
Unrecognized net gain .....	—	(1)	(5)	(2)	(7)	(12)
Net periodic benefit cost (income) .....	<u>\$ 17</u>	<u>\$ 9</u>	<u>\$ 10</u>	<u>\$ 6</u>	<u>\$(10)</u>	<u>\$(16)</u>
Of which:						
Ordinary Capital's share .....	\$ 14	\$ 7	\$ 8	\$ 5	\$ (8)	\$(13)
FSO's share .....	3	2	2	1	(2)	(3)

The Bank allocates the net periodic benefit costs and income between the Ordinary Capital and the FSO in accordance with the allocation method approved by the Board of Executive Directors for administrative expenses. Benefit cost is included in Administrative expenses. Benefit income from the PRBP for prior years is included in Other income.

**Actuarial assumptions**

The actuarial assumptions used are based on financial market interest rates, past experience, and management's best estimate of future benefit changes and economic conditions. Changes in these assumptions will impact future benefit costs and obligations. Actuarial gains and losses occur when actual results are different from expected results. Unrecognized actuarial gains and losses which exceed 10% of the greater of the benefit obligation or market-related value of plan assets at the beginning of the period are amortized over the average remaining service period of active employees expected to receive benefits under the SRP, LRP and PRBP, which approximates 10.5, 13.0 and 11.5 years, respectively.

Unrecognized prior service cost is amortized over 10.5 years for the SRP, 13.0 years for the LRP, and 7.5 years for the PRBP.

The weighted-average assumptions used to determine the benefit obligations and net periodic benefit cost were as follows:

	Pension Benefits			Postretirement Benefits		
	2004	2003	2002	2004	2003	2002
Weighted-average assumptions used to determine benefit obligations at December 31,						
Discount rate .....	5.50%	5.75%	6.25%	5.50%	5.75%	6.25%
Rate of salary increase SRP .....	5.10%	5.30%	6.10%			
Rate of salary increase LRP .....	6.90%	7.20%	7.90%			

	Pension Benefits			Postretirement Benefits		
	2004	2003	2002	2004	2003	2002
Weighted-average assumptions used to determine net periodic benefit cost for the years ended December 31,						
Discount rate .....	5.75%	6.25%	5.25%	5.75%	6.25%	5.25%
Expected long-term return on plan assets .....	6.75%	7.25%	6.00%	6.75%	7.25%	6.00%
Rate of salary increase SRP .....	5.30%	6.10%	5.10%			
Rate of salary increase LRP .....	7.20%	7.90%	6.90%			

The expected yearly rate of return on plan assets reflects the historical rate of returns of asset categories employed by the plans and conservatively applying those returns in formulating the Investment Policy asset allocations.

For participants assumed to retire in the United States, the accumulated postretirement benefit obligation was determined using the following health care cost trend rates at December 31:

	2004	2003	2002
Health care cost trend rates assumed for next year:			
Medical .....	8.00%	8.75%	9.75%
Prescription drugs .....	11.00%	14.75%	16.75%
Dental .....	6.50%	7.25%	8.25%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate) .....	4.50%	4.75%	5.25%
Year that the rate reaches the ultimate trend rate .....	2013	2013	2013

For those participants assumed to retire outside of the United States, an 8.0% (2003—8.75%; 2002—9.75%) health care cost trend rate was used.

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**NOTES TO FINANCIAL STATEMENTS** (continued)

Assumed health care cost trend rates have a significant effect on the amounts reported for the PRBP. A one-percentage point change in assumed health care cost trend rates would have the following effects as of December 31, 2004 (in millions):

	1-Percentage Point Increase	1-Percentage Point Decrease
Effect on total of service and interest cost components .....	\$10	\$ (8)
Effect on postretirement benefit obligation .....	87	(69)

**Plan assets**

The Plans and PRBP weighted-average asset allocations at December 31, 2004 and 2003, by asset category, are as follows:

Asset category	Plans		PRBP	
	2004	2003	2004	2003
U.S. equities .....	36%	36%	41%	41%
Non-U.S. equities .....	32%	32%	32%	32%
Fixed income bonds and funds .....	18%	18%	18%	17%
U.S. inflation-indexed bonds ..	6%	6%	9%	9%
Real estate investment funds and equities .....	5%	6%	—	—
Commodity index futures .....	2%	2%	—	—
Other .....	1%	—	—	1%
Total .....	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

The assets of the Plans and the PRBP are managed primarily by investment managers employed by the Bank who are provided with investment guidelines that take into account the Plans and PRBP investment policies. Investment policies have been developed so that, consistent with historical returns, there is a high equity allocation with the expectation of sufficient returns to meet long-term funding needs.

Investments maintain an average exposure between 65% and 70% to a well-diversified pool of equities. Assets are also invested in fixed-income securities (20%) to protect against severe dis-inflation, and a mix of other types of investments (10% to 15%) that are expected to react positively to rising inflation to

provide protection against loss of purchasing power. The investment policy target allocations as of December 31, 2004 are as follows:

	SRP	LRP	PRBP
U.S. equities .....	35%	40%	40%
Non-U.S. equities .....	30%	30%	30%
Fixed income .....	20%	20%	20%
Inflation-Sensitive investments <sup>(1)</sup> ..	15%	10%	10%

<sup>(1)</sup> Comprises U.S. inflation-indexed bonds (7%), real estate investment funds and equities (6%), and commodity index futures (2%) for the SRP, U.S. inflation-indexed bonds (5%) and real estate investment funds and equities (5%) for the LRP, and U.S. inflation-indexed bonds (10%) for the PRBP.

Risk management is achieved by the continuous monitoring of each asset category level and investment manager. The investments are rebalanced toward the policy target allocations to the extent possible from cash flows. If cash flows are insufficient to maintain target weights, transfers among the managers' accounts are made at least annually. Investment managers generally are not allowed to invest more than 5% of their respective portfolios in the securities of a single issuer other than the U.S. Government. The use of derivatives by an investment manager must be specifically approved for each instrument.

**Cash flows**

**Contributions**

Contributions from the Bank to the Plans and the PRBP during 2005 are expected to be approximately \$29 million and \$12 million, respectively. All contributions are made in cash.

**Estimated future benefit payments**

The following table shows the benefit payments, which reflect expected future service, as appropriate, expected to be paid in each of the next five years and in the aggregate for the subsequent five years (in millions). These amounts are based on the same assumptions used to measure the benefit obligation at December 31, 2004.

Year	Plans	PRBP
2005 .....	\$ 69	\$ 22
2006 .....	74	24
2007 .....	81	26
2008 .....	86	29
2009 .....	92	31
2010-2014 .....	543	192

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**NOTES TO FINANCIAL STATEMENTS** (continued)

**Note N – Reconciliation of Net Income to Net Cash Provided by Operating Activities**

A reconciliation of Net income to Net cash provided by operating activities, as shown in the Statement of Cash Flows, is as follows (in millions):

	Years ended December 31,		
	2004	2003	2002
Net income .....	\$1,176	\$ 2,433	\$ 708
Difference between amounts accrued and amounts paid or collected for:			
Loan income .....	(72)	171	147
Investment income .....	(1)	2	(11)
Net unrealized (gain) loss on trading investments .....	(14)	(4)	1
Interest and other costs of borrowings, after swaps .....	124	(159)	(54)
Administrative expenses, including depreciation .....	(10)	(1)	(23)
Effects of SFAS 133 and currency transaction adjustments .....	(279)	222	206
Provision (credit) for loan and guarantee losses .....	21	(1,370)	100
Net cash provided by operating activities .....	<u>\$ 945</u>	<u>\$ 1,294</u>	<u>\$1,074</u>

**Supplemental disclosure of noncash activities**

Increase (decrease) resulting from exchange rate fluctuations:

Trading investments .....	\$ 170	\$ 383	\$ 253
Held-to-maturity investments .....	194	451	(37)
Loans outstanding .....	624	1,621	1,591
Borrowings .....	665	1,883	1,627
Receivable from members-net .....	(164)	(342)	154

**Note O – Segment Reporting**

Management has determined that the Bank has only one reportable segment since it does not manage its operations by allocating resources based on a determination of the contributions to net income of individual operations. The Bank does not differentiate between the nature of the products or services provided, the preparation process, or the method for providing the services among individual countries. For the year 2004, loans made to or guaranteed by three countries individually generated in excess of 10 percent of loan income. Loan income from these three countries was \$551 million, \$440 million and \$345 million, respectively.

**Note P – Fair Values of Financial Instruments**

The following methods and assumptions were used by the Bank in estimating the fair value for its financial instruments:

**Cash:** The carrying amount reported in the Balance Sheet for cash approximates fair value.

**Investments:** Fair values for investment securities are based on quoted market prices, where available; otherwise they are based on dealer prices of comparable instruments or discounted cash flows.

**Loans:** The Bank is one of very few lenders of development loans to Latin American and Caribbean countries. There is no secondary market for development loans. For all loans and related commitments, the Bank is of the opinion that, due to its unique position in lending operations and the absence of a secondary market, it is not practicable to estimate a fair value for its lending portfolio.

**Swaps:** Fair values for interest rate and currency swaps are based on pricing models and represent the estimated cost of replacing these contracts.

**Borrowings:** The fair values of borrowings are based on quoted market prices, where available; otherwise they are based on dealer prices of comparable instruments or discounted cash flows.

The following table presents the Bank's estimates of fair value for its financial instruments, along with the respective carrying amounts, as of December 31, 2004 and 2003 (in millions):

	2004		2003	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Cash .....	\$ 210	\$ 210	\$ 347	\$ 347
Investments				
Trading .....	9,162	9,162	11,372	11,372
Held-to-maturity .....	3,809	3,854	3,607	3,667
Loans, net .....	49,643	N/A	50,472	N/A
Currency and interest rate swaps receivable on borrowings .....	2,366	2,366	1,680	1,680
Borrowings				
Short-term .....	308	308	1,569	1,569
Medium- and long-term ..	46,505	47,876	48,720	50,351
Currency and interest rate swaps payable				
Investments—trading ..	115	115	306	306
Loans .....	33	33	47	47
Borrowings .....	697	697	666	666

N/A = Not available

ORDINARY CAPITAL  
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## APPENDIX I-1

**SUMMARY STATEMENT OF TRADING INVESTMENTS AND SWAPS – NOTE D**

December 31, 2004

Expressed in millions of United States dollars

	Euro	Japanese yen	United States dollars	All currencies
Obligations of the United States Government and its corporations and agencies:				
Carrying value .....	157	—	253	410
Average balance during year .....	188	70	258	516
Net gains for the year .....	2	—	1	3
Obligations of other governments and agencies:				
Carrying value .....	261	39	240	540
Average balance during year .....	259	637	255	1,151
Net losses for the year .....	(1)	(1)	(12)	(14)
Bank obligations and time deposits:				
Carrying value .....	179	—	2,583	2,762
Average balance during year .....	581	71	2,401	3,053
Net losses for the year .....	(1)	—	—	(1)
Corporate securities:				
Carrying value .....	56	—	165	221
Average balance during year .....	26	82	190	298
Net losses for the year .....	—	—	(2)	(2)
Asset- and mortgage-backed securities:				
Carrying value .....	1,717	—	3,512	5,229
Average balance during year .....	1,624	68	3,270	4,962
Net gains for the year .....	4	—	6	10
Total trading investments:				
Carrying value .....	2,370	39	6,753	9,162
Average balance during year .....	2,678	928	6,374	9,980
Net gains (losses) for the year .....	4	(1)	(7)	(4)
Currency swaps receivable:				
Carrying value <sup>(1)</sup> .....	—	—	221	221
Average balance during year .....	—	—	401	401
Net gains (losses) for the year .....	—	—	—	—
Currency swaps payable:				
Carrying value <sup>(1)</sup> .....	(284)	(39)	—	(323)
Average balance during year .....	(435)	(87)	—	(522)
Net gains for the year .....	2	—	—	2
Net interest rate swaps:				
Carrying value <sup>(1)</sup> .....	(4)	—	(9)	(13)
Average balance during year .....	(4)	(3)	(16)	(23)
Net gains (losses) for the year .....	(1)	1	13	13
Total trading investments and swaps:				
Carrying value .....	2,082	—	6,965	9,047
Average balance during year .....	2,239	838	6,759	9,836
Net gains for the year .....	5	—	6	11
Return for the year (%) .....	2.55	0.12	1.66	1.72

<sup>(1)</sup> Carrying value of currency swaps represents the fair value of each individual receivable or (payable) leg, classified by their currency. As explained in Note B to the financial statements, currency and interest rate swap agreements are stated in the Balance Sheet as assets or liabilities, depending on the nature (debit or credit) of the net fair value amount of these agreements.

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## APPENDIX I-1

**SUMMARY STATEMENT OF TRADING INVESTMENTS AND SWAPS – NOTE D**

December 31, 2003

Expressed in millions of United States dollars

	Euro	Japanese yen	United States dollars	Other currencies	All currencies
Obligations of the United States Government and its corporations and agencies:					
Carrying value .....	440	80	406	—	926
Average balance during year .....	348	62	485	—	895
Net losses for the year .....	(5)	—	—	—	(5)
Obligations of other governments and agencies:					
Carrying value .....	346	525	289	—	1,160
Average balance during year .....	329	381	347	1	1,058
Net losses for the year .....	(9)	(2)	(10)	—	(21)
Bank obligations and time deposits:					
Carrying value .....	706	83	2,667	—	3,456
Average balance during year .....	840	77	3,322	88	4,327
Net gains (losses) for the year .....	(2)	—	6	—	4
Corporate securities:					
Carrying value .....	12	143	233	36	424
Average balance during year .....	15	142	313	34	504
Net gains for the year .....	—	—	2	—	2
Asset- and mortgage-backed securities:					
Carrying value .....	1,709	78	3,619	—	5,406
Average balance during year .....	1,032	103	3,721	—	4,856
Net gains for the year .....	1	—	—	—	1
Total trading investments:					
Carrying value .....	3,213	909	7,214	36	11,372
Average balance during year .....	2,564	765	8,188	123	11,640
Net losses for the year .....	(15)	(2)	(2)	—	(19)
Currency swaps receivable:					
Carrying value <sup>(1)</sup> .....	—	—	836	—	836
Average balance during year .....	—	45	884	—	929
Net gains (losses) for the year .....	—	—	—	—	—
Currency swaps payable:					
Carrying value <sup>(1)</sup> .....	(980)	(92)	—	(36)	(1,108)
Average balance during year .....	(1,026)	(71)	(39)	(35)	(1,171)
Net gains for the year .....	14	1	1	—	16
Net interest rate swaps:					
Carrying value <sup>(1)</sup> .....	(4)	(2)	(28)	—	(34)
Average balance during year .....	(3)	(2)	(36)	—	(41)
Net gains for the year .....	2	1	18	—	21
Total trading investments and swaps:					
Carrying value .....	2,229	815	8,022	—	11,066
Average balance during year .....	1,535	737	8,997	88	11,357
Net gains for the year .....	1	—	17	—	18
Return for the year (%) .....	2.68	0.23	1.43	0.35	1.48

<sup>(1)</sup> Carrying value of currency swaps represents the fair value of each individual receivable or (payable) leg, classified by their currency. As explained in Note B to the financial statements, currency and interest rate swap agreements are stated in the Balance Sheet as assets or liabilities, depending on the nature (debit or credit) of the net fair value amount of these agreements.



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## APPENDIX I-2

**SUMMARY STATEMENT OF HELD-TO-MATURITY INVESTMENTS – NOTE D**

December 31, 2004

Expressed in millions of United States dollars

	<u>Euro</u>	<u>Japanese yen</u>	<u>Swiss francs</u>	<u>United States dollars</u>	<u>Other currencies</u>	<u>All currencies</u>
Obligations of the United States Government and its corporations and agencies:						
Net carrying amount	178	—	—	5	—	183
Gross unrealized gains	3	—	—	—	—	3
Gross unrealized losses	—	—	—	—	—	—
Fair value	181	—	—	5	—	186
Obligations of other governments and agencies:						
Net carrying amount	631	513	137	368	812	2,461
Gross unrealized gains	11	—	3	4	13	31
Gross unrealized losses	—	—	—	2	1	3
Fair value	642	513	140	370	824	2,489
Bank obligations and time deposits:						
Net carrying amount	399	77	40	79	114	709
Gross unrealized gains	6	—	—	—	—	6
Gross unrealized losses	—	—	—	—	—	—
Fair value	405	77	40	79	114	715
Corporate securities:						
Net carrying amount	—	10	—	14	—	24
Gross unrealized gains	—	—	—	—	—	—
Gross unrealized losses	—	—	—	—	—	—
Fair value	—	10	—	14	—	24
Asset- and mortgage-backed securities:						
Net carrying amount	41	72	—	155	164	432
Gross unrealized gains	1	—	—	4	4	9
Gross unrealized losses	—	—	—	1	—	1
Fair value	42	72	—	158	168	440
Total held-to-maturity investments:						
Net carrying amount	1,249	672	177	621	1,090 <sup>(1)</sup>	3,809
Gross unrealized gains	21	—	3	8	17	49
Gross unrealized losses	—	—	—	3	1	4
Fair value	1,270	672	180	626	1,106	3,854
Return for the year (%)	3.77	0.22	1.45	4.25	4.44	3.32

<sup>(1)</sup> The net carrying amount of held-to-maturity investments held in other currencies consists of the following:

Canadian dollars	\$ 789
British pounds sterling	213
Other	88
Total	<u>\$1,090</u>

**MATURITY STRUCTURE OF HELD-TO-MATURITY INVESTMENTS**

December 31, 2004

Expressed in millions of United States dollars

<u>Year of maturity</u>	<u>Net carrying amount</u>	<u>Fair value</u>
2005	\$1,477	\$1,483
2006 to 2009	2,313	2,352
2010	19	19
Total	<u>\$3,809</u>	<u>\$3,854</u>

ORDINARY CAPITAL  
INTER-AMERICAN DEVELOPMENT BANK

## APPENDIX I-2

**SUMMARY STATEMENT OF HELD-TO-MATURITY INVESTMENTS - NOTE D**

December 31, 2003

Expressed in millions of United States dollars

	<u>Euro</u>	<u>Japanese yen</u>	<u>Swiss francs</u>	<u>United States dollars</u>	<u>Other currencies</u>	<u>All currencies</u>
Obligations of the United States						
Government and its corporations						
and agencies:						
Net carrying amount .....	211	—	—	5	—	216
Gross unrealized gains .....	3	—	—	—	—	3
Gross unrealized losses .....	—	—	—	—	—	—
Fair value .....	214	—	—	5	—	219
Obligations of other governments						
and agencies:						
Net carrying amount .....	408	521	145	328	724	2,126
Gross unrealized gains .....	5	1	4	10	13	33
Gross unrealized losses .....	2	—	—	1	1	4
Fair value .....	411	522	149	337	736	2,155
Bank obligations and time deposits:						
Net carrying amount .....	557	—	90	16	110	773
Gross unrealized gains .....	11	—	—	—	—	11
Gross unrealized losses .....	—	—	—	—	—	—
Fair value .....	568	—	90	16	110	784
Corporate securities:						
Net carrying amount .....	—	10	—	45	16	71
Gross unrealized gains .....	—	—	—	1	—	1
Gross unrealized losses .....	—	—	—	—	—	—
Fair value .....	—	10	—	46	16	72
Asset- and mortgage-backed securities:						
Net carrying amount .....	38	23	12	201	147	421
Gross unrealized gains .....	1	—	—	10	5	16
Gross unrealized losses .....	—	—	—	—	—	—
Fair value .....	39	23	12	211	152	437
Total held-to-maturity investments:						
Net carrying amount .....	1,214	554	247	595	997 <sup>(1)</sup>	3,607
Gross unrealized gains .....	20	1	4	21	18	64
Gross unrealized losses .....	2	—	—	1	1	4
Fair value .....	1,232	555	251	615	1,014	3,667
Return for the year (%) .....	3.82	0.26	2.67	4.68	4.97	3.67

<sup>(1)</sup> The net carrying amount of held-to-maturity investments held in other currencies consists of the following:

Canadian dollars .....	\$702
British pounds sterling .....	218
Other .....	77
Total .....	<u>\$997</u>

**MATURITY STRUCTURE OF HELD-TO-MATURITY INVESTMENTS**

December 31, 2003

Expressed in millions of United States dollars

<u>Year of maturity</u>	<u>Net carrying amount</u>	<u>Fair value</u>
2004 .....	\$1,169	\$1,177
2005 to 2008 .....	2,433	2,485
2010 .....	5	5
Total .....	<u>\$3,607</u>	<u>\$3,667</u>

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INTER-AMERICAN DEVELOPMENT BANK

## APPENDIX I-3

**SUMMARY STATEMENT OF LOANS – NOTE E**

December 31, 2004 and 2003

Expressed in millions of United States dollars

Member in whose territory loans have been made	Outstanding 2004 <sup>(1)</sup>	Currency in which outstanding balance is collectible		Undisbursed	Outstanding 2003 <sup>(1)</sup>
		Non-borrowing country currencies	Borrowing country currencies		
Argentina .....	\$ 8,593	\$ 8,512	\$ 81	\$ 2,816	\$ 8,619
Bahamas .....	71	71	—	53	71
Barbados .....	165	165	—	99	165
Belize .....	70	70	—	19	64
Bolivia .....	366	366	—	—	425
Brazil .....	10,506	10,464	42	5,211	11,673
Chile .....	569	567	2	196	619
Colombia .....	4,824	4,797	27	1,004	4,846
Costa Rica .....	770	770	—	199	747
Dominican Republic .....	923	923	—	480	708
Ecuador .....	1,418	1,418	—	257	1,485
El Salvador .....	1,101	1,101	—	401	1,115
Guatemala .....	887	887	—	495	825
Guyana .....	12	12	—	—	19
Honduras .....	151	151	—	—	168
Jamaica .....	647	647	—	225	635
Mexico .....	7,429	7,429	—	1,281	7,174
Nicaragua .....	108	108	—	—	114
Panama .....	777	777	—	343	795
Paraguay .....	655	655	—	325	632
Peru .....	3,212	3,211	1	831	2,935
Suriname .....	42	42	—	44	42
Trinidad and Tobago .....	437	437	—	239	444
Uruguay .....	2,241	2,241	—	515	2,281
Venezuela .....	1,966	1,952	14	274	2,122
Regional .....	658	658	—	85	728
Private Sector Program .....	1,244	1,244	—	401	1,204
Inter-American Investment Corporation .....	—	—	—	300	—
Total 2004 .....	<u>\$49,842</u>	<u>\$49,675</u>	<u>\$167</u>	<u>\$16,093</u>	<u>\$50,655</u>
Total 2003 .....		<u>\$50,478</u>	<u>\$177</u>	<u>\$15,619</u>	<u>\$50,655</u>

<sup>(1)</sup> This table excludes outstanding participated Private Sector Program loans which amounted to \$1,947 million at December 31, 2004 (2003—\$2,098 million). This table also excludes guarantees outstanding in the amount of \$331 million at December 31, 2004 (2003—\$342 million).

	December 31,			December 31,	
	2004	2003		2004	2003
Argentina .....	\$ 161	\$ 200	Mexico .....	\$ 316	\$ 336
Bolivia .....	94	77	Nicaragua .....	9	9
Brazil .....	368	377	Panama .....	14	16
Chile .....	35	41	Peru .....	88	14
Colombia .....	9	15	Uruguay .....	15	12
Costa Rica .....	13	14	Regional .....	92	93
Jamaica .....	30	—		<u>\$1,244</u>	<u>\$1,204</u>

ORDINARY CAPITAL  
INTER-AMERICAN DEVELOPMENT BANK

## APPENDIX I-4

## SUMMARY STATEMENT OF LOANS OUTSTANDING BY CURRENCY AND PRODUCT – NOTE E

December 31, 2004

Expressed in millions of United States dollars

Currency/Rate type	Multicurrency loans <sup>(2)</sup>		Single currency loans			Total loans	
	Amount	Weighted average rate (%)	Amount	Weighted average rate (%)	Average maturity (years)	Amount	Weighted average rate (%)
<b>Euro</b>							
Fixed .....	\$ 277	7.30	\$ —	—	—	\$ 277	7.30
Adjustable .....	2,469	4.62	13	4.63	7.08	2,482	4.62
<b>Japanese yen</b>							
Fixed .....	513	7.27	—	—	—	513	7.27
Adjustable .....	4,666	4.62	3	1.65	6.63	4,669	4.62
<b>Swiss francs</b>							
Fixed .....	293	7.32	—	—	—	293	7.32
Adjustable .....	2,594	4.62	—	—	—	2,594	4.62
<b>United States dollars</b>							
Fixed .....	1,031	7.28	—	—	—	1,031	7.28
Adjustable .....	9,355	4.62	21,937	4.99	8.46	31,292	4.88
LIBOR—based fixed .....	—	—	975	7.10	4.68	975	7.10
LIBOR—based floating .....	—	—	5,547	5.16	3.99	5,547	5.16
<b>Others</b>							
Fixed .....	169	4.02	—	—	—	169	4.02
<b>Loans outstanding</b>							
Fixed .....	2,283	7.04	—	—	—	2,283	7.04
Adjustable .....	19,084	4.62	21,953	4.99	8.46	41,037	4.82
LIBOR—based fixed .....	—	—	975	7.10	4.68	975	7.10
LIBOR—based floating .....	—	—	5,547	5.16	3.99	5,547	5.16
<b>Total</b> .....	<u>\$21,367</u>	<u>4.88</u>	<u>\$28,475</u>	<u>5.10</u>	<u>7.46</u>	<u>\$49,842</u>	<u>5.00</u>

## MATURITY STRUCTURE OF LOANS OUTSTANDING

December 31, 2004

Expressed in millions of United States dollars

Year of maturity	Multicurrency loans <sup>(2)</sup>		Single currency loans		All loans		
	Fixed	Adjustable	Fixed <sup>(1)</sup>	Adjustable <sup>(1)</sup>	Fixed	Adjustable	Total
2005 .....	\$ 551	\$ 1,912	\$ 84	\$ 1,152	\$ 635	\$ 3,064	\$ 3,699
2006 .....	433	1,926	123	2,405	556	4,331	4,887
2007 .....	341	1,924	123	3,212	464	5,136	5,600
2008 .....	259	1,929	113	2,488	372	4,417	4,789
2009 .....	182	1,927	105	1,685	287	3,612	3,899
2010 to 2014 .....	466	6,793	382	7,870	848	14,663	15,511
2015 to 2019 .....	43	2,203	45	5,866	88	8,069	8,157
2020 to 2024 .....	8	435	—	2,404	8	2,839	2,847
2025 to 2029 .....	—	35	—	418	—	453	453
<b>Total</b> .....	<u>\$2,283</u>	<u>\$19,084</u>	<u>\$975</u>	<u>\$27,500</u>	<u>\$3,258</u>	<u>\$46,584</u>	<u>\$49,842</u>
<b>Average maturity (years) ...</b>	<u>3.17</u>	<u>5.62</u>	<u>4.68</u>	<u>7.56</u>	<u>3.62</u>	<u>6.77</u>	<u>6.56</u>

<sup>(1)</sup> Includes LIBOR-based loans.

<sup>(2)</sup> Average maturity—Multicurrency loans: The selection of currencies by the Bank for billing purposes does not permit the determination of average maturity for multicurrency loans by individual currency. Accordingly, the Bank discloses the maturity periods for its multicurrency loans and average maturity for the total multicurrency loan portfolio on a combined United States dollar equivalent basis.

ORDINARY CAPITAL  
INTER-AMERICAN DEVELOPMENT BANK

## APPENDIX I-4

**SUMMARY STATEMENT OF LOANS OUTSTANDING BY CURRENCY AND PRODUCT -  
NOTE E**

December 31, 2003

Expressed in millions of United States dollars

Currency/Rate type	Multicurrency loans <sup>(2)</sup>		Single currency loans			Total loans	
	Amount	Weighted average rate (%)	Amount	Weighted average rate (%)	Average maturity (years)	Amount	Weighted average rate (%)
Euro							
Fixed .....	\$ 426	7.42	\$ —	—	—	\$ 426	7.42
Adjustable .....	2,841	4.85	13	4.84	7.85	2,854	4.85
Japanese yen							
Fixed .....	733	7.39	—	—	—	733	7.39
Adjustable .....	4,983	4.85	2	1.13	7.62	4,985	4.85
Swiss francs							
Fixed .....	386	7.43	—	—	—	386	7.43
Adjustable .....	2,542	4.85	—	—	—	2,542	4.85
United States dollars							
Fixed .....	1,425	7.40	—	—	—	1,425	7.40
Adjustable .....	9,607	4.85	20,238	4.96	8.90	29,845	4.92
LIBOR—based fixed .....	—	—	901	7.11	4.85	901	7.11
LIBOR—based floating .....	—	—	6,381	4.68	3.46	6,381	4.68
Others							
Fixed .....	177	4.03	—	—	—	177	4.03
Loans outstanding							
Fixed .....	3,147	7.21	—	—	—	3,147	7.21
Adjustable .....	19,973	4.85	20,253	4.96	8.90	40,226	4.91
LIBOR—based fixed .....	—	—	901	7.11	4.85	901	7.11
LIBOR—based floating .....	—	—	6,381	4.68	3.46	6,381	4.68
Total .....	<u>\$23,120</u>	<u>5.17</u>	<u>\$27,535</u>	<u>4.97</u>	<u>7.51</u>	<u>\$50,655</u>	<u>5.06</u>

**MATURITY STRUCTURE OF LOANS OUTSTANDING**

December 31, 2003

Expressed in millions of United States dollars

Year of maturity	Multicurrency loans <sup>(2)</sup>		Single currency loans		All loans		
	Fixed	Adjustable	Fixed <sup>(1)</sup>	Adjustable <sup>(1)</sup>	Fixed	Adjustable	Total
2004 .....	\$ 714	\$ 1,802	\$ 79	\$ 2,197	\$ 793	\$ 3,999	\$ 4,792
2005 .....	614	1,857	79	1,112	693	2,969	3,662
2006 .....	478	1,869	115	2,303	593	4,172	4,765
2007 .....	373	1,852	114	2,991	487	4,843	5,330
2008 .....	285	1,854	103	2,248	388	4,102	4,490
2009 to 2013 .....	593	7,450	376	7,277	969	14,727	15,696
2014 to 2018 .....	79	2,648	35	5,557	114	8,205	8,319
2019 to 2023 .....	11	595	—	2,506	11	3,101	3,112
2024 to 2028 .....	—	46	—	437	—	483	483
2029 .....	—	—	—	6	—	6	6
Total .....	<u>\$3,147</u>	<u>\$19,973</u>	<u>\$901</u>	<u>\$26,634</u>	<u>\$4,048</u>	<u>\$46,607</u>	<u>\$50,655</u>
Average maturity (years) ...	<u>3.19</u>	<u>6.00</u>	<u>4.85</u>	<u>7.59</u>	<u>3.56</u>	<u>6.91</u>	<u>6.64</u>

(1), (2) See footnotes on previous page.

ORDINARY CAPITAL  
INTER-AMERICAN DEVELOPMENT BANK

## APPENDIX I-5

**STATEMENT OF MEDIUM- AND LONG-TERM BORROWINGS AND SWAPS – NOTES G AND H**

December 31, 2004

Expressed in millions of United States dollars

Currency/Rate type	Direct borrowings			Currency swap agreements			Interest rate swap agreements			Net currency obligations		
	Amount	Wgt'd. avg. cost (%)	Average maturity (years)	Amount <sup>(2)</sup> payable (receivable)	Wgt'd. avg. cost (%)	Average maturity (years)	Amount <sup>(2)</sup> payable (receivable)	Wgt'd. avg. cost (%)	Average maturity (years)	Amount payable (receivable)	Wgt'd. avg. cost (%)	Average maturity (years) <sup>(1)</sup>
<b>Euro</b>												
Fixed .....	\$ 3,852	5.42	4.48	\$ —	—	—	\$ 475	4.22	2.31	\$ 4,327	5.29	4.24
	—	—	—	(1,207)	5.33	3.77	(1,535)	3.98	5.77	(2,742)	4.57	4.89
Adjustable .....	926	5.26	9.73	1,681	1.98	2.26	1,535	2.49	5.77	4,142	2.90	5.23
	—	—	—	(1,019)	4.86	9.02	(475)	1.98	2.31	(1,494)	3.95	6.89
<b>Japanese yen</b>												
Fixed .....	3,476	3.51	4.47	876	0.93	3.82	49	1.71	3.37	4,401	2.97	4.33
	—	—	—	(585)	3.53	3.25	(1,289)	1.92	4.58	(1,874)	2.42	4.17
Adjustable .....	107	3.23	6.61	282	(0.29)	3.68	1,269	(0.22)	4.84	1,658	(0.01)	4.76
	—	—	—	(563)	0.31	4.44	(29)	1.23	13.83	(592)	0.36	4.90
<b>Swiss francs</b>												
Fixed .....	1,237	3.61	2.25	—	—	—	—	—	—	1,237	3.61	2.25
	—	—	—	—	—	—	—	—	—	—	—	—
Adjustable .....	—	—	—	504	0.40	4.52	—	—	—	504	0.40	4.52
	—	—	—	—	—	—	—	—	—	—	—	—
<b>United States dollars</b>												
Fixed .....	26,771	5.33	5.52	1,401	5.70	3.73	284	5.45	4.12	28,456	5.35	5.41
	—	—	—	(515)	5.69	3.14	(9,811)	4.43	6.84	(10,326)	4.50	6.66
Adjustable .....	150	2.46	9.73	9,723	2.09	5.81	10,747	2.10	6.78	20,620	2.10	6.34
	—	—	—	(1,147)	2.19	3.24	(1,220)	1.96	5.67	(2,367)	2.07	4.49
<b>Others</b>												
Fixed .....	12,367	5.76	6.00	—	—	—	—	—	—	12,367	5.76	6.00
	—	—	—	(12,329)	5.07	5.98	—	—	—	(12,329)	5.07	5.98
<b>Total</b>												
Fixed .....	47,703	5.27	5.40	2,277	—	—	808	—	—	50,788	5.20	5.28
	—	—	—	(14,636)	—	—	(12,635)	—	—	(27,271)	4.62	6.00
Adjustable .....	1,183	4.72	9.45	12,190	—	—	13,551	—	—	26,924	2.05	6.04
	—	—	—	(2,729)	—	—	(1,724)	—	—	(4,453)	2.47	5.35
<b>Principal at face value ..</b>	<b>48,886</b>	<b>5.26</b>	<b>5.49</b>	<b>(2,898)</b>			<b>—</b>			<b>45,988</b>	<b>3.96</b>	<b>5.29</b>
<b>SFAS 133 —</b>												
Basis adjustment ....	315									315		
Fair value adjustment <sup>(2)</sup> ....	—			(119)			(98)			(217)		
<b>Net unamortized discount .....</b>	<b>(2,696)</b>			<b>1,446</b>						<b>(1,250)</b>		
<b>Total .....</b>	<b>\$46,505</b>	<b>5.26</b>	<b>5.49</b>	<b>\$ (1,571)</b>			<b>\$ (98)</b>			<b>\$ 44,836</b>	<b>3.96</b>	<b>5.29</b>

(1) As of December 31, 2004, the average repricing period of the net currency obligations for adjustable rate borrowings was four months.

(2) Currency swaps are shown at face value and interest rate swaps are shown at the notional amount of each individual payable or (receivable) leg, classified by their currency. Both currency and interest rate swaps are adjusted, in total, to fair value as indicated. The net fair value amount receivable from currency swaps of \$1,571 million and the net fair value amount receivable from interest rate swaps of \$98 million, shown in the above table, are represented by currency and interest rate swap assets at fair value of \$2,366 million and currency and interest rate swap liabilities at fair value of \$697 million, included on the Balance Sheet.

**MATURITY STRUCTURE OF MEDIUM- AND LONG-TERM BORROWINGS OUTSTANDING**

December 31, 2004

Expressed in millions of United States dollars

Year of maturity		Year of maturity	
2005 .....	\$ 5,841	2010 through 2014 .....	\$14,607
2006 .....	6,836	2015 through 2019 .....	4,815
2007 .....	4,982	2020 through 2024 .....	888
2008 .....	5,103	2025 through 2027 .....	1,250
2009 .....	4,564	<b>Total .....</b>	<b>\$48,886</b>

ORDINARY CAPITAL  
INTER-AMERICAN DEVELOPMENT BANK

## APPENDIX I-5

**STATEMENT OF MEDIUM- AND LONG-TERM BORROWINGS AND SWAPS – NOTES G AND H**

December 31, 2003

Expressed in millions of United States dollars

Currency/Rate type	Direct borrowings			Currency swap agreements			Interest rate swap agreements			Net currency obligations		
	Amount	Wgt'd. avg. cost (%)	Average maturity (years)	Amount <sup>(2)</sup> payable (receivable)	Wgt'd. avg. cost (%)	Average maturity (years)	Amount <sup>(2)</sup> payable (receivable)	Wgt'd. avg. cost (%)	Average maturity (years)	Amount payable (receivable)	Wgt'd. avg. cost (%)	Average maturity (years) <sup>(1)</sup>
<b>Euro</b>												
Fixed .....	\$ 4,047	5.56	4.88	\$ —	—	—	\$ 440	4.22	3.31	\$ 4,487	5.43	4.73
	—	—	—	(649)	5.89	1.67	(1,420)	3.98	6.77	(2,069)	4.58	5.17
Adjustable .....	857	5.26	10.73	1,555	1.96	3.26	1,420	2.35	6.77	3,832	2.84	6.23
	—	—	—	(942)	4.85	10.02	(440)	1.97	3.31	(1,382)	3.93	7.88
<b>Japanese yen</b>												
Fixed .....	3,627	3.68	5.08	843	0.93	4.82	47	1.71	4.37	4,517	3.15	5.02
	—	—	—	(563)	3.53	4.25	(1,240)	1.89	5.58	(1,803)	2.40	5.16
Adjustable .....	103	3.23	7.61	1,083	(0.23)	2.84	1,222	(0.21)	5.84	2,408	(0.07)	4.57
	—	—	—	(75)	4.01	4.90	(28)	1.23	14.83	(103)	3.25	7.60
<b>Swiss francs</b>												
Fixed .....	1,862	3.49	2.19	334	4.68	0.76	288	2.23	0.74	2,484	3.50	1.83
	—	—	—	(404)	2.17	0.39	(162)	3.33	0.83	(566)	2.50	0.52
Adjustable .....	—	—	—	288	0.13	0.74	162	0.06	0.83	450	0.10	0.77
	—	—	—	—	—	—	(288)	0.13	0.74	(288)	0.13	0.74
<b>United States dollars</b>												
Fixed .....	30,519	5.27	5.42	782	6.37	2.95	284	5.45	5.12	31,585	5.30	5.36
	—	—	—	(515)	5.69	4.14	(13,038)	4.49	5.43	(13,553)	4.54	5.38
Adjustable .....	—	—	—	7,854	1.06	6.69	14,617	1.09	4.99	22,471	1.08	5.58
	—	—	—	(2,090)	1.05	3.19	(1,864)	1.04	1.91	(3,954)	1.05	2.59
<b>Others</b>												
Fixed .....	9,806	5.51	7.05	—	—	—	—	—	—	9,806	5.51	7.05
	—	—	—	(9,737)	4.68	7.01	—	—	—	(9,737)	4.68	7.01
<b>Total</b>												
Fixed .....	49,861	5.16	5.55	1,959	—	—	1,059	—	—	52,879	5.08	5.42
	—	—	—	(11,868)	—	—	(15,860)	—	—	(27,728)	4.41	5.82
Adjustable .....	960	5.04	10.40	10,780	—	—	17,421	—	—	29,161	1.20	5.51
	—	—	—	(3,107)	—	—	(2,620)	—	—	(5,727)	1.74	3.86
Principal at face value ..	50,821	5.16	5.64	(2,236)	—	—	—	—	—	48,585	3.53	5.43
SFAS 133—												
Basis adjustment ....	608	—	—	—	—	—	—	—	—	608	—	—
Fair value adjustment <sup>(2)</sup> ....	—	—	—	273	—	—	(221)	—	—	52	—	—
Net unamortized discount .....	(2,709)	—	—	1,170	—	—	—	—	—	(1,539)	—	—
Total .....	<u>\$48,720</u>	<u>5.16</u>	<u>5.64</u>	<u>\$ (793)</u>	—	—	<u>\$ (221)</u>	—	—	<u>\$ 47,706</u>	<u>3.53</u>	<u>5.43</u>

<sup>(1)</sup> As of December 31, 2003, the average repricing period of the net currency obligations for adjustable rate borrowings was four months.<sup>(2)</sup> Currency swaps are shown at face value and interest rate swaps are shown at the notional amount of each individual payable or (receivable) leg, classified by their currency. Both currency and interest rate swaps are adjusted, in total, to fair value as indicated. The net fair value amount receivable from currency swaps of \$793 million and the net fair value amount receivable from interest rate swaps of \$221 million, shown in the above table, are represented by currency and interest rate swap assets at fair value of \$1,680 million and currency and interest rate swap liabilities at fair value of \$666 million, included on the Balance Sheet.**MATURITY STRUCTURE OF MEDIUM- AND LONG-TERM BORROWINGS OUTSTANDING**

December 31, 2003

Expressed in millions of United States dollars

Year of maturity		Year of maturity	
2004 .....	\$ 7,610	2009 through 2013 .....	\$15,261
2005 .....	5,733	2014 through 2018 .....	5,782
2006 .....	4,964	2019 through 2023 .....	861
2007 .....	4,300	2024 through 2027 .....	1,250
2008 .....	5,060	Total .....	<u>\$50,821</u>

ORDINARY CAPITAL  
INTER-AMERICAN DEVELOPMENT BANK

## APPENDIX I-6

**STATEMENT OF SUBSCRIPTIONS TO CAPITAL STOCK – NOTE J**

December 31, 2004 and 2003

Expressed in millions of United States dollars<sup>(1)</sup>

Members	Shares	Paid-in portion of subscribed capital		Callable portion of subscribed capital	Total 2004	Total 2003
		Freely convertible currencies	Other currencies			
Argentina .....	900,154	\$ 361.1	\$104.1	\$10,393.8	\$ 10,858.9	\$ 10,858.9
Austria .....	13,312	6.9	—	153.7	160.6	160.6
Bahamas .....	17,398	7.5	4.1	198.3	209.9	209.9
Barbados .....	10,767	3.9	1.8	124.3	129.9	129.9
Belgium .....	27,438	14.2	—	316.8	331.0	331.0
Belize .....	9,178	3.6	3.6	103.5	110.7	110.7
Bolivia .....	72,258	29.0	8.4	834.4	871.7	871.7
Brazil .....	900,154	361.1	104.1	10,393.8	10,858.9	10,858.9
Canada .....	334,887	173.7	—	3,866.2	4,039.9	4,039.9
Chile .....	247,163	99.1	28.6	2,853.9	2,981.6	2,981.6
Colombia .....	247,163	99.2	28.6	2,853.9	2,981.6	2,981.6
Costa Rica .....	36,121	14.5	4.2	417.1	435.7	435.7
Croatia .....	4,018	2.1	—	46.4	48.5	48.5
Denmark .....	14,157	7.3	—	163.4	170.8	170.8
Dominican Republic .....	48,220	19.3	5.6	556.8	581.7	581.7
Ecuador .....	48,220	19.3	5.6	556.8	581.7	581.7
El Salvador .....	36,121	14.5	4.2	417.1	435.7	435.7
Finland .....	13,312	6.9	—	153.7	160.6	160.6
France .....	158,638	82.3	—	1,831.4	1,913.7	1,913.7
Germany .....	158,638	82.3	—	1,831.4	1,913.7	1,913.7
Guatemala .....	48,220	19.3	5.6	556.8	581.7	581.7
Guyana .....	13,393	5.2	2.6	153.8	161.6	161.6
Haiti .....	36,121	14.5	4.2	417.1	435.7	435.7
Honduras .....	36,121	14.5	4.2	417.1	435.7	435.7
Israel .....	13,126	6.8	—	151.5	158.3	158.3
Italy .....	158,638	82.3	—	1,831.4	1,913.7	1,913.7
Jamaica .....	48,220	19.3	5.6	556.8	581.7	581.7
Japan .....	418,642	217.1	—	4,833.2	5,050.3	5,050.3
Mexico .....	578,632	232.1	66.9	6,681.3	6,980.3	6,980.3
Netherlands .....	28,207	14.6	—	325.6	340.3	340.3
Nicaragua .....	36,121	14.5	4.2	417.1	435.7	435.7
Norway .....	14,157	7.3	—	163.4	170.8	170.8
Panama .....	36,121	14.5	4.2	417.1	435.7	435.7
Paraguay .....	36,121	14.5	4.2	417.1	435.7	435.7
Peru .....	120,445	48.3	14.0	1,390.7	1,453.0	1,453.0
Portugal .....	4,474	2.3	—	51.7	54.0	54.0
Slovenia .....	2,434	1.3	—	28.1	29.4	29.4
Spain .....	158,638	82.3	—	1,831.4	1,913.7	1,913.7
Suriname .....	7,342	3.5	2.2	82.9	88.6	88.6
Sweden .....	27,268	14.1	—	314.8	328.9	328.9
Switzerland .....	39,347	20.4	—	454.2	474.7	474.7
Trinidad and Tobago .....	36,121	14.5	4.2	417.1	435.7	435.7
United Kingdom .....	80,551	41.8	—	929.9	971.7	971.7
United States .....	2,512,529	1,303.0	—	29,006.7	30,309.7	30,309.7
Uruguay .....	96,507	38.7	11.2	1,114.3	1,164.2	1,164.2
Venezuela .....	482,267	216.0	33.3	5,568.5	5,817.8	5,817.8
Total before unallocated amount	8,367,080	3,870.5	468.8	96,596.4	100,935.7	100,935.7
Unallocated <sup>(2)</sup> .....	1,299	0.9	—	14.8	15.7	15.7
Total 2004 .....	<u>8,368,379</u>	<u>\$ 3,871</u>	<u>\$ 469</u>	<u>\$ 96,611</u>	<u>\$ 100,951</u>	
Total 2003 .....	<u>8,368,379</u>	<u>\$ 3,871</u>	<u>\$ 469</u>	<u>\$ 96,611</u>		<u>\$ 100,951</u>

<sup>(1)</sup> Data are rounded; detail may not add up to subtotals and totals because of rounding.<sup>(2)</sup> Represents the remaining shares of the former Socialist Federal Republic of Yugoslavia. Possible membership of Serbia and Montenegro is still pending.



ORDINARY CAPITAL  
INTER-AMERICAN DEVELOPMENT BANK

## APPENDIX I-7

**STATEMENT OF SUBSCRIPTIONS TO CAPITAL STOCK AND VOTING POWER**

December 31, 2004

Member countries	Subscribed shares	Number of votes	% of total number of votes <sup>(1)</sup>
<b>Regional developing members</b>			
Argentina .....	900,154	900,289	10.752
Bahamas .....	17,398	17,533	0.209
Barbados .....	10,767	10,902	0.130
Belize .....	9,178	9,313	0.111
Bolivia .....	72,258	72,393	0.865
Brazil .....	900,154	900,289	10.752
Chile .....	247,163	247,298	2.953
Colombia .....	247,163	247,298	2.953
Costa Rica .....	36,121	36,256	0.433
Dominican Republic .....	48,220	48,355	0.577
Ecuador .....	48,220	48,355	0.577
El Salvador .....	36,121	36,256	0.433
Guatemala .....	48,220	48,355	0.577
Guyana .....	13,393	13,528	0.162
Haiti .....	36,121	36,256	0.433
Honduras .....	36,121	36,256	0.433
Jamaica .....	48,220	48,355	0.577
Mexico .....	578,632	578,767	6.912
Nicaragua .....	36,121	36,256	0.433
Panama .....	36,121	36,256	0.433
Paraguay .....	36,121	36,256	0.433
Peru .....	120,445	120,580	1.440
Suriname .....	7,342	7,477	0.089
Trinidad and Tobago .....	36,121	36,256	0.433
Uruguay .....	96,507	96,642	1.154
Venezuela .....	482,267	482,402	5.761
Total regional developing members .....	<u>4,184,669</u>	<u>4,188,179</u>	<u>50.018</u>
Canada .....	334,887	335,022	4.001
United States .....	2,512,529	2,512,664	30.008
<b>Nonregional members</b>			
Austria .....	13,312	13,447	0.161
Belgium .....	27,438	27,573	0.329
Croatia .....	4,018	4,153	0.050
Denmark .....	14,157	14,292	0.171
Finland .....	13,312	13,447	0.161
France .....	158,638	158,773	1.896
Germany .....	158,638	158,773	1.896
Israel .....	13,126	13,261	0.158
Italy .....	158,638	158,773	1.896
Japan .....	418,642	418,777	5.001
Netherlands .....	28,207	28,342	0.338
Norway .....	14,157	14,292	0.171
Portugal .....	4,474	4,609	0.055
Slovenia .....	2,434	2,569	0.031
Spain .....	158,638	158,773	1.896
Sweden .....	27,268	27,403	0.327
Switzerland .....	39,347	39,482	0.472
United Kingdom .....	80,551	80,686	0.964
Total nonregional members .....	<u>1,334,995</u>	<u>1,337,425</u>	<u>15.973</u>
Total before unallocated amount .....	<u>8,367,080</u>	<u>8,373,290</u>	<u>100.000</u>
Unallocated <sup>(2)</sup> .....	1,299	1,434	
<b>GRAND TOTAL</b> .....	<u>8,368,379</u>	<u>8,374,724</u>	

<sup>(1)</sup> Data are rounded; detail may not add to subtotals and grand total because of rounding.

<sup>(2)</sup> Represents the remaining shares of the former Socialist Federal Republic of Yugoslavia. Possible membership of Serbia and Montenegro is still pending.



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